

# **Economic Dualism In India: Analyzing The Divergence Between Urban And Rural Sectors**

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## **Abstract**

*This research paper explores the phenomenon of economic dualism in India, which is characterized by a stark contrast between the urban and rural sectors. The paper analyzes the historical roots of this dualism, the factors contributing to its persistence, and its implications for India's economic development. This paper also measures dualism and analyzes its trend since 1991. Through a comprehensive review of relevant literature and statistical data, this study aims to shed light on the challenges posed by economic dualism and potential policy measures to bridge the gap between the two sectors.*

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## **I. Introduction**

Economic dualism refers to the coexistence of two distinct economic sectors with significant disparities in terms of productivity, income, infrastructure, and development. In India, the phenomenon of dualism is evident in the stark divide between the urban and rural sectors. The objective of this research paper is to examine the reasons behind this dichotomy and its implications for the Indian economy.

India, a country known for its rich cultural heritage and diverse landscapes, is also grappling with deep-rooted economic disparities. Over the years, India has witnessed significant economic growth and development, especially in its urban centers. Cities like Mumbai, Bangalore, and Delhi have emerged as hubs of economic activity, attracting investments and skilled labor from various parts of the country and the world. (Government of India, 2021) However, this prosperity stands in stark contrast to the challenges faced by the rural population, where a majority of India's citizens still reside.

## **II. Historical Roots of Economic Dualism in India**

The roots of economic dualism in India can be traced back to its colonial history. During British rule, India's economy was structured to serve the interests of the colonial masters, resulting in the concentration of economic activity in urban centers. The rural sector was often neglected, leading to disparities in development and living standards.

### **Land Ownership Patterns**

One of the key factors contributing to economic dualism is the skewed land ownership patterns in rural India. Large landholdings by a few landowners have led to landlessness and marginalization of a significant proportion of the rural population, perpetuating poverty and agrarian distress. (Bhalla, 2019)

### **Industrialization and Urbanization**

After independence, India focused on industrialization and urbanization, leading to rapid growth in urban areas. However, the rural sector was left relatively untouched, resulting in a widening gap between urban and rural development.

As the urban centers flourished, the rural regions faced challenges related to agricultural modernization, limited access to basic services, and the absence of diversified economic opportunities. The lack of investment in rural infrastructure, education, and healthcare further widened the gap between the two sectors. (Bhalla, 2019)

In conclusion, economic dualism in India has deep historical roots, with the colonial era setting the stage for the concentration of economic activities in urban areas while neglecting the rural sector. The subsequent emphasis on industrialization and urbanization further widened the disparities. In the next section, we will explore the factors contributing to the persistence of economic dualism in contemporary India.

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### **III. Factors Contributing to the Persistence of Economic Dualism**

#### **Infrastructure Disparities**

One of the significant factors contributing to the persistence of economic dualism in India is the glaring disparity in infrastructure between urban and rural areas. Urban centers benefit from well-developed transportation networks, modern communication facilities, access to electricity, and reliable water supply. On the contrary, rural regions often suffer from inadequate roads, limited access to electricity, and a lack of proper sanitation facilities.

The inadequate rural infrastructure hampers the movement of goods and people, making it challenging for rural areas to participate fully in economic activities and access markets. This disparity further intensifies the rural-urban divide, perpetuating the economic dualism. (Chaudhuri, 2017)

#### **Educational Disparities**

Education plays a crucial role in shaping human capital and fostering economic growth. Unfortunately, India faces significant educational disparities between urban and rural areas. Urban centers offer better-equipped schools with qualified teachers, whereas rural regions often lack access to quality education. (Chaudhuri, 2017)

The dearth of educational facilities in rural areas limits the skill development and employability of the rural population, leading to a concentration of skilled labor in urban centers. As a result, the urban regions benefit from a more skilled workforce, attracting investments, and driving economic growth, while the rural areas struggle to keep pace with the changing economic landscape.

#### **Employment Opportunities**

Urban areas offer a wide range of employment opportunities, including those in the formal and organized sectors. The concentration of industries, technology hubs, and services in cities attracts job seekers from rural regions, leading to significant rural-to-urban migration. The migration of the rural workforce to cities exacerbates the economic divide by creating labor shortages in rural areas and putting pressure on urban infrastructure and services. (Kundu& Sarkar, 2018)

Moreover, the informal nature of employment in rural areas often results in low wages and limited job security, leading to a cycle of poverty and underdevelopment. As urban areas continue to draw the labor force, rural regions are left grappling with the consequences of population loss and reduced economic activities. (Kundu& Sarkar, 2018)

### **IV. Implications for India's Economic Development**

#### **Inequality and Social Unrest**

The persistence of economic dualism has exacerbated income inequality, resulting in a wide wealth gap between urban elites and the rural population. (Kundu& Sarkar, 2018) This growing disparity can fuel social unrest, with marginalized communities feeling left behind and disconnected from the nation's economic growth. Social tensions and unrest can hamper economic progress and stability in the long run.

#### **Limiting Potential for Economic Growth**

The economic dualism hinders India's potential for overall economic growth. The rural population represents a significant proportion of the country's workforce and consumer base. Neglecting the rural sector means missing out on the contributions and potential economic value that could be unleashed if rural areas were adequately developed and integrated into the broader economy.

#### **Impediment to Poverty Alleviation Efforts**

India has made commendable efforts in poverty alleviation, but economic dualism poses challenges to these efforts. Poverty is often concentrated in rural regions, where access to basic amenities, healthcare, and education is limited. The concentration of resources and opportunities in urban areas makes it harder to implement effective poverty reduction strategies. (Sharma, 2016)

### **V. Assessing Dualism through Measurement**

In the aforementioned context, Lewis (1954) conceptualized development as a process involving the reduction of dualistic elements. The notion of dualism presents a challenge due to the existence of surplus labor within the traditional sector, which essentially constitutes hidden unemployment. This issue of underemployment, coupled with low productivity per unit of labor (attributed to the lack of capital usage in production), is a major factor contributing to pervasive poverty in developing nations. The coexistence of underemployed individuals (as opposed to entirely unemployed ones) is facilitated by the prevailing institutional framework, particularly the self-employment system, which allows for work and income sharing. In such a

scenario, changes in the workforce size of the traditional sector don't directly impact the actual labor input in production, and thus, don't alter the overall output. Instead, they primarily influence the extent of work sharing (i.e., the level of underemployment) and subsequently affect the output per worker.

In economies characterized by these structural attributes, genuine economic growth primarily materializes within the modern sector, where capital accumulation takes place. Expansion of output in the traditional sector necessitates the introduction of capital; this can only be accomplished if the government is inclined and capable of channeling a portion of the savings generated within the modern sector into traditional sector investments. Likewise, in the absence of governmental intervention, employment growth is confined to the modern sector. While the number of individuals participating in economically productive activities within the traditional sector can increase, it results in heightened work sharing (and consequently lower output per worker), rather than a genuine surge in employment (Ghose 2010, p. 43).

To gauge the phenomenon of dualism, I've employed a formula based on the Gini coefficient, initially introduced by Nielsen (1994). Essentially, this formula targets the issue of surplus labor or concealed unemployment within the agricultural domain. The Gini-based formula for measuring dualism can be represented as follows:

$$D = |L-P|$$

Where D denotes the measure of dualism, L represents the percentage allocation of labor force within agriculture, and P signifies the percentage allocation of agriculture within GDP. The Gini dualism formula can be understood as the disparity between the agricultural labor force's share and its contribution to the overall production or income of the society. When the average incomes in both agricultural and non-agricultural sectors are equal, the proportions P and L align, leading to a dualism value of zero. Dualism can also dissipate when the traditional sector becomes insignificantly small, causing both terms in the formula to approach zero (Nielsen 1994, p. 660).

To demonstrate the applicability of this equation, Table 1 presented below provides the assessment of dualism within several developed and developing economies:

**Table 1: Dualism in developed and developing countries**

Country	Year	Share of agriculture in employment	Share of agriculture in GDP	Measure of Dualism
USA <sup>3</sup>	2017	1.3%	1%	0.30
UK <sup>4</sup>	2017	1.11%	0.52%	0.59
Finland <sup>5</sup>	2017	3.88%	2.32%	1.56
India <sup>6</sup>	2017	44.5%	17.9%	26.6
Ivory Coast <sup>7</sup>	2017	48%	20.46%	27.54
Kenya <sup>8</sup>	2017	57%	31.52%	25.48

In this observation, it becomes evident that the degree of dualism is notably minimal, measuring below 2, in advanced economies such as the USA, UK, and Finland. Conversely, in emerging economies like India, Kenya, and Ivory Coast, the extent surpasses 25.

As per the International Monetary Fund (IMF), India holds the position of the world's fifth-largest economy. Nevertheless, the level of dualism remains considerably elevated within the country, as indicated by the information outlined in Table 1. A substantial degree of dualism signifies a significant portion of the labor force being either underemployed or covertly unemployed, underscoring the fact that India has yet to fully capitalize on its demographic potential. "Historically speaking, structural change in employment in India has been very slow. But it seems to have accelerated a bit in the post-reform decade" (Mazumdar and Sarkar 2009, p. 2). The progression of dualism in India since 1991 is presented in Table 2 below.

<sup>3</sup> US Department of Agriculture, Economic Research Service (<https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/ag-and-food-sectors-and-the-economy.aspx>).

<sup>4</sup> Ibid.

<sup>5</sup> Statista, The Statistics Portal (<https://www.statista.com/>).

<sup>6</sup> International Labour Organization modeled estimates, November 2018; Central Statistics Office, National Accounts Statistics, 2018.

<sup>7</sup> International Labour Organization modeled estimates, November 2018; Statista, The Statistics Portal (<https://www.statista.com/>).

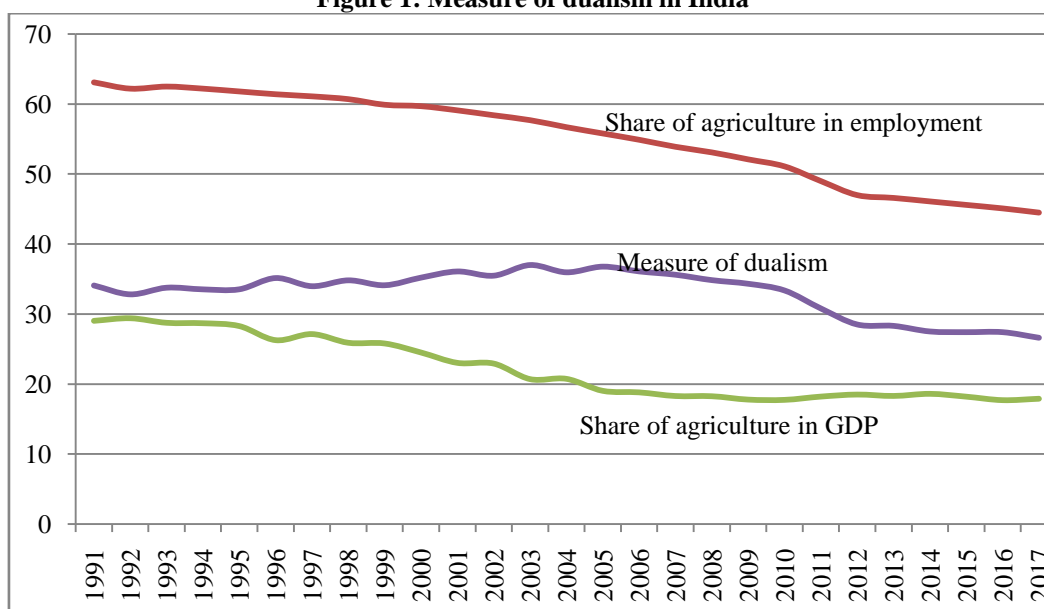
<sup>8</sup> Ibid.

**Table 2: Measure of dualism in India**

Year	Share of agriculture in employment	Share of agriculture in GDP	Measure of dualism
1991	63.1	29.02	34.08
1992	62.2	29.39	32.81
1993	62.5	28.74	33.76
1994	62.2	28.68	33.52
1995	61.8	28.27	33.53
1996	61.4	26.26	35.14
1997	61.1	27.13	33.97
1998	60.7	25.89	34.81
1999	59.9	25.79	34.11
2000	59.7	24.50	35.20
2001	59.1	23.02	36.08
2002	58.4	22.92	35.48
2003	57.7	20.70	37.00
2004	56.7	20.74	35.96
2005	55.8	19.03	36.77
2006	54.9	18.81	36.09
2007	53.9	18.29	35.61
2008	53.1	18.26	34.84
2009	52.1	17.78	34.32
2010	51.1	17.74	33.36
2011	49.0	18.21	30.79
2012	47.0	18.50	28.50
2013	46.6	18.30	28.30
2014	46.1	18.60	27.50
2015	45.6	18.20	27.40
2016	45.1	17.70	27.40
2017	44.5	17.90	26.60

The employment information outlined in Table 2 originates from ILO's modeled approximations as of November 2018, whereas the data concerning the proportion of agriculture in GDP is sourced from the Central Statistics Office, Ministry of Statistics and Programme Implementation. The calculation of dualism measure was conducted utilizing the Gini dualism formula, showing a decline from 34.08 in 1991 to a minimum of 26.60 in 2017 (also the lowest value within the specified time frame). The peak was observed in 2003, reaching 37. Over the years, the proportion of agriculture in the workforce has demonstrated a consistent decrease, ranging from a high of 63.1% in 1991 to a low of 44.5% in 2017. Simultaneously, its share in GDP has experienced a decline, dropping from 29.02% in 1991 to 17.90% in 2017. A graphical representation of this pattern is provided in Figure 1 below for better clarity:

**Figure 1: Measure of dualism in India**



The data presented in Figure 1 clearly illustrates the diminishing trend in the proportion of agricultural employment (L), which has experienced a gradual decline compared to its contribution to GDP (P), which has exhibited a more erratic decrease. The reduction in L (from 63.1% to 44.5%)—an 18.6% decrease—is notably larger than the decline in P (from 29.02% to 17.9%)—an 11.12% decrease. This discrepancy implies that surplus labor has been gradually transitioning away from agriculture over the post-reform decades, signifying a fundamental shift in the structure of the Indian economy. Until 2006, the fluctuations in P are accurately mirrored in the dualism measure (D), as the decrease in L has been relatively consistent, causing any fluctuations in P to be directly reflected in D. From 2005 onward, dualism has consistently diminished until 2017, attributed to the fact that the proportion of agriculture within GDP nearly stabilized after 2006, while its share in employment experienced a continual decrease. Consequently, the trajectories of D and L closely align after 2006.

A significant factor contributing to the notable decline in dualism between 2009 and 2013 could be attributed to the implementation of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2005. The primary objective of the initiative, as stated, is to "enhance livelihood security in rural areas by providing at least 100 days of wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work." The program aimed to foster the creation of rural assets and infrastructure, such as water harvesting systems and roads. The peak performance year of the scheme is considered to be 2009-2010, during which the highest average person-days of employment per household were recorded, amounting to 54 days. While it is theoretically plausible that the higher wages offered by MGNREGA in the non-farm sector would attract labor away from agriculture, the empirical validation of this argument remains a question.

Numerous reports from states like Andhra Pradesh, Punjab, Haryana, Uttar Pradesh, and Tamil Nadu have indicated labor shortages during crop harvesting, including wheat and rice, subsequent to the implementation of NREGA. Shortages have also been observed during peak paddy sowing seasons in Punjab and apple harvesting seasons in Himachal Pradesh. These reports have demonstrated how the scarcity of labor has led to increased bargaining power for migrant workers in Punjab, resulting not only in higher wages but also improvements in working conditions (Narasimha et al., 2014).

## **VI. Effects of economic reforms of 1991 on economic dualism in India**

The economic reforms of 1991, also known as the "New Economic Policy," had a profound impact on the economic landscape of India. These reforms were introduced to address the economic crisis that India faced in the late 1980s and early 1990s, characterized by a balance of payments crisis, fiscal deficits, and a stagnant economy. The key objectives of the economic reforms were to liberalize the economy, encourage private sector participation, and integrate India into the global economy. These reforms had both positive and negative effects on economic dualism in India. Let's delve into the details:

### **Positive Effects on Economic Dualism**

**Economic Growth and Urbanization:** The economic reforms led to increased foreign direct investment (FDI), greater access to global markets, and a surge in industrial and service sector growth. This economic expansion in urban areas attracted rural migrants in search of better employment opportunities, contributing to urbanization.

**Modernization of Agriculture:** The reforms aimed to modernize the agricultural sector by encouraging private investment, introducing new technologies, and reducing government interventions. As a result, certain agricultural regions experienced improvements in productivity and income. (Sharma, 2016)

**Infrastructure Development:** The liberalization of the economy attracted private investments in infrastructure projects, particularly in urban centers. This led to improved transportation, communication, and energy networks, benefiting both urban and rural areas.

**Information Technology (IT) and Services Sector:** The reforms facilitated the growth of the IT and services sectors, which became major drivers of economic growth in urban centers. The IT boom generated employment opportunities, attracting skilled labor from both rural and urban areas.

### **Negative Effects on Economic Dualism**

**Regional Disparities:** While urban areas experienced rapid growth and development, the benefits of the economic reforms were not evenly distributed across the country. This led to widening regional disparities, with some states and regions benefitting significantly more than others.

**Agriculture and Rural Distress:** While certain regions saw improvements, many rural areas remained relatively untouched by the reforms. The focus on industrial and service sectors often led to neglect of agriculture, exacerbating the agrarian crisis and rural distress.

and rural areas. Urban centers experienced a surge in high-paying jobs, while rural areas continued to rely heavily on low-wage agriculture and informal employment. (Sharma, 2016)

**Employment Disparities:** While the reforms generated employment opportunities in urban centers, the rural sector struggled to keep pace with the growing demand for jobs. This resulted in an influx of rural migrants to urban areas, leading to labor shortages in rural regions.

### **Mixed Effects**

**Poverty Alleviation:** The economic reforms did contribute to poverty reduction in some urban areas, particularly among the middle class. However, the benefits of poverty alleviation were not evenly distributed, and poverty remained a significant challenge in many rural regions.

**Skill Gap:** The reforms promoted skill development and education in urban areas, resulting in the emergence of a skilled urban workforce. However, this created a skill gap between the rural and urban sectors, as rural areas struggled to provide quality education and skill development opportunities.

## **VII. Policy Measures to Address Economic Dualism**

Addressing economic dualism in India requires a comprehensive and multi-faceted approach that focuses on reducing disparities between the urban and rural sectors. Below are some key policy measures that can help bridge the gap and promote inclusive economic development:

### **Rural Development Initiatives**

Investing in rural development is crucial for reducing economic disparities. The government should allocate funds to improve rural infrastructure, including roads, irrigation systems, and access to clean drinking water. By enhancing rural connectivity, the movement of goods and people will improve, stimulating economic activities and attracting investments in the rural areas.

### **Agricultural Modernization and Diversification**

Agriculture remains a significant source of livelihood for a substantial portion of the population. Promoting agricultural modernization and diversification can increase productivity and income for farmers. This can be achieved through the adoption of advanced farming techniques, improved access to credit, and the promotion of high-value crops and agro-processing industries.

### **Skill Development and Employment Generation**

Focusing on skill development programs in rural areas can empower the rural workforce with the necessary expertise to take up non-agricultural employment opportunities. Training initiatives should align with the needs of emerging industries, including manufacturing, services, and information technology, to create local job opportunities in rural regions.

### **Promoting Rural Industries and SMEs**

Encouraging the growth of rural industries and small and medium-sized enterprises (SMEs) can foster entrepreneurship and create employment opportunities locally. The government can provide financial incentives, access to credit, and technical support to promote rural businesses and industries.

### **Land Reforms**

Implementing land reforms is crucial to ensure equitable land distribution and secure land tenure for smallholder farmers. Land consolidation and redistribution can help reduce income disparities and empower rural communities.

### **Quality Education and Healthcare**

Investments in quality education and healthcare in rural areas are essential for empowering individuals with knowledge and skills. Improved access to education and healthcare services will enhance human capital, making the rural population more capable of contributing to economic growth.

### **Decentralization of Economic Activities**

To reduce the pressure on urban centers and encourage regional development, the government should promote the decentralization of economic activities. This can be achieved by creating investment incentives in smaller cities and towns, encouraging industries to diversify their locations, and developing specialized economic zones in rural areas.

## **VIII. Conclusion**

Economic dualism in India is a complex challenge that has deep-rooted historical causes and significant implications for the country's economic development. The disparity between the urban and rural sectors hinders inclusive growth and social well-being. However, addressing this issue is essential for sustainable and equitable economic progress.

The economic reforms of 1991 had significant effects on economic dualism in India. While they stimulated economic growth in urban areas, modernized certain agricultural regions, and improved infrastructure, they also widened income disparities, exacerbated rural distress, and led to migration from rural to urban areas. To address these challenges, policymakers must focus on inclusive development, rural-urban linkages, and targeted interventions to uplift the marginalized rural population and reduce economic dualism in the country.

The information presented indicates a gradual yet consistent decrease in dualism within India since 1991. This decline is notably more pronounced in the latter portion of the analyzed timeframe compared to the earlier part. Initiatives such as MGNREGA and advancements in transportation and communication have facilitated the migration of surplus labor away from the agricultural sector.

To tackle economic dualism effectively, policymakers need to adopt a combination of targeted strategies. Investing in rural development, agricultural modernization, and skill development can unlock the potential of rural India. Moreover, land reforms, improved infrastructure, and quality education and healthcare are vital components of the policy framework to bridge the gap between the urban and rural sectors.

Achieving economic convergence between urban and rural regions will not only reduce poverty and income inequality but also stimulate overall economic growth and enhance India's global competitiveness. As the country moves forward, policymakers and stakeholders must work together to implement inclusive policies and create a more balanced and prosperous economy for all citizens.

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