

What Does the Rural Economy Need?

Analysis of the Promises for Rural India

AMIT BASOLE

The agricultural sector has performed worse than the other sectors over the years. The shares of non-agricultural employment and output have increased, while 70% of agricultural households cannot meet their low consumption needs even after diversification of sources of income. An analysis of budgetary provisions for the rural economy suggests that the government has not done enough to address some of these well-documented problems, and does not have the required vision to substantially increase rural employment opportunities.

After the high economic drama of demonetisation and the resulting shocks to the economy, the 2017-18 budget, the fourth one presented by Finance Minister Arun Jaitley, could be seen as an attempt to regain some credibility for the government and calm the general populace as well as international investors. It has been seen as a “routine” budget but also a “pro-growth” one, promising large increases in public investment in social and physical infrastructure and cutting taxes, while being fiscally prudent.

Like the previous budget, this one has also been seen as giving a “push” to the rural economy. Is there a vision implicit in the budget commensurate with the challenges that the rural economy is facing. Here, I will speak of one of the biggest challenges, that of generating livelihoods capable of providing regular, living incomes for every household in rural India. Two major prongs can be recognised in the budget to raise rural incomes and create employment opportunities: raising agricultural productivity and creating non-farm employment. This is complemented by provisioning of public services such as health, roads, and housing.

Structure and Performance

India is going through a well-documented employment creation crisis. Interestingly, the employment problem is often thought of as an urban issue, whether one speaks of open unemployment among educated youth or disguised unemployment in the informal sector. But it is equally, or perhaps more, a crisis of the rural economy. Before discussing the budget itself, it is useful to cast a glance at the state of the rural economy.

Three salient features are immediately apparent in the aggregate data. First, the primary sector has performed much worse than the other two sectors consistently

for the past several years. Second, the shares of non-agricultural employment and output have increased steadily. And third, there is an ongoing severe crisis of quality of livelihoods in the rural sector to the extent that 70% of agricultural households cannot meet their (low) consumption needs even given diverse sources of income.

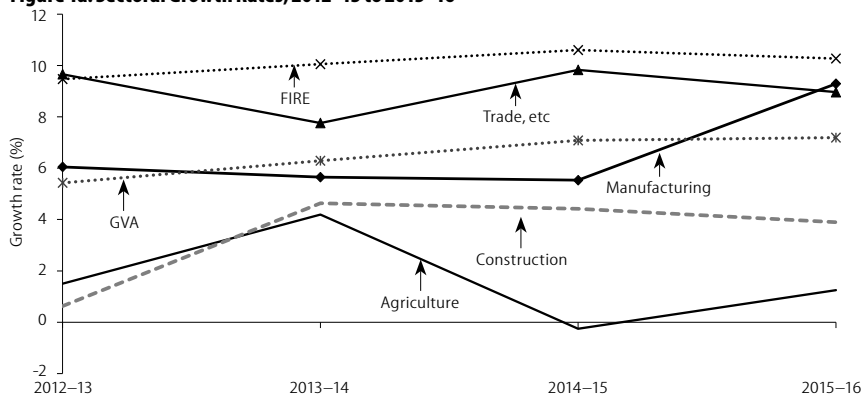
Figure 1a (p 41) shows the well-known fact that for the past few years rates of growth of gross value added in agriculture have been below those in all other sectors of the economy. Going further back reveals a similar story (Figure 1b, page 41).¹ The basic point remains the same: the single largest sector of the Indian economy, in terms of employment, has performed worse than the economy as a whole for the past decade and a half.

Consistent with the poor performance of agriculture, there has been a significant shift in the rural occupational distribution away from this sector. The 2015 Labour Ministry Employment-Unemployment Survey (EUS) (Government of India (GoI) 2016) reveals that, as per the National Sample Survey Office’s (NSSO) “usual principal status” definition, 58.1% of workers are in agriculture, followed by construction (11.6%), manufacturing (7.9%) and, trade and repair (7.1%) (GoI 2016: p 70, Table 22.4).² The share of the non-agricultural sector in rural employment has been steadily increasing, even accelerating from 27% in 2005 to 32% in 2010 to 42% in 2015 (GoI 2006, 2016). On the output side, the non-farm economy already contributed 62% of rural net domestic product (NDP) even as early as 2005 (Papola and Sahu 2012).

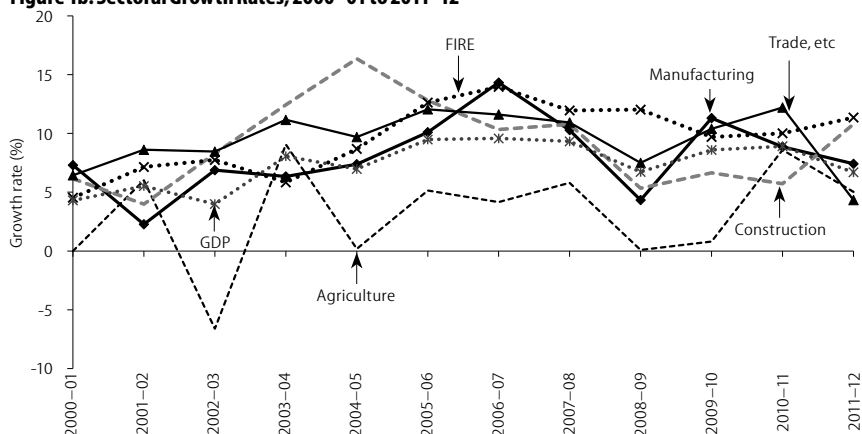
Consistent with the declining importance of agriculture in supporting decent livelihoods, even within households that are considered “agricultural” as per the NSSO definition, Labour Bureau data shows that 22% report wage employment and 4.7% report non-agricultural enterprises as their principal source of income. On average, of total income from all sources, 32% is contributed by wages or salaries.

But despite diversification of income sources, total income still falls short of total consumption. In fact, according to NSSO data, income exceeds consumption only for farm households with access to

Amit Basole (amit.basole@apu.edu.in) teaches Economics at the School of Liberal Arts, Azim Premji University, Bengaluru.

Figure 1a: Sectoral Growth Rates, 2012-13 to 2015-16

FIRE (Finance, Insurance and Real Estate); GVA: Gross Value Added.
Source: Reserve Bank of India (RBI), Database of Indian Economy (DBIE).

Figure 1b: Sectoral Growth Rates, 2000-01 to 2011-12

Source: RBI, DBIE.

more than 2.5 acres of land (GoI 2014a). This means that fully 70% of agricultural households do not earn enough to support (low) levels of consumption. It is not a surprise, therefore, to see that 52% of agricultural households are indebted with an average outstanding loan of ₹47,000 per household (the number is as high as 93% for Andhra Pradesh).

On the bright side, however, it should be noted that in 2002-03, the previous Situation Assessment Survey of Farmers round of the NSSO had reported that one had to reach into the category of agricultural households owning 10 acres and more to find income exceeding consumption expenditure (GoI 2005). By this measure, agricultural households with small landholdings have improved their lot over the 10-year period (2003-13). On average, nominal consumption grew by 125% over this period but nominal incomes grew by 204%. However, significantly, this improvement has come much more from incomes arising out of livestock (738%) than cultivation (218%)

(author's calculations based on GoI 2005, 2014a).

But it should be emphasised that despite these encouraging signs, absolute levels of income as well as expenditure remain very low. Average monthly consumption of agricultural households in 2012-13 was reported to be ₹6,223. Average monthly income (including net receipts from cultivation, livestock, non-farm business, and wages/salaries) was estimated at ₹6,426 (author's calculations based on GoI 2005, 2014a). Let one think that this is a problem peculiar to only agricultural households, it should be noted that according to the Labour Ministry's EUS (which is independent of the NSSO), 76.9% of rural households earn ₹10,000 a month or less, and 93% earn ₹20,000 or less (GoI 2016: p 19, Table 2.5). Recall here that the Seventh Pay Commission recommended that minimum government pay, based on basic food, fuel, clothing and other daily necessities, and adjusted for a skill component, should be

₹18,000 per month (GoI 2015). Thus, nearly 90% of rural households, most of them skilled farmers, artisans, and other workers, earn less than what the GoI considers a minimum living wage, and as many as three-quarters of rural households earn half of this minimum wage. To put it simply, as per the NSSO data, an agricultural household would have to possess 10 acres of land or more to earn incomes approximating what an office peon in government service would earn. Even allowing for a downward bias in earnings data from household surveys, this paints an alarming picture of deprivation in the countryside and offers an easy explanation for the intense hunger for government jobs.

Thus, it is clear that whether in the farm or the non-farm sector, the rural economy is not a remunerative one. A worrying trend in this respect is that manufacturing, which accounted for 32% of rural non-farm employment in 1994, has declined steadily in importance, down to 22% in 2010 and now stands at 17% (Papola and Sahu 2012; GoI 2016). While manufacturing has lost its share, the gainers have been construction and trade. The former increased its share from 11% in 1994 to 28% in 2015 (GoI 2016). As is well-known, construction, including public works under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), has emerged as the most significant source of non-farm employment. Since manufacturing has rightly been seen as important for a revival of the rural economy, there is an urgent need to refocus attention on rural industrialisation.

Thus, two large salient facts emerge about the process of structural change in India. First, the movement of workers from the primary to secondary and tertiary sectors, though occurring, remains slow, largely because gross domestic product (GDP) growth in industry and services has been accompanied by very weak growth of employment, whether of the formal or the informal kind. And second, perhaps more alarmingly, whatever occupational change and diversification of livelihoods have occurred are of the kind that have left the

vast majority far below even the minimum government standards.

Budgetary Provisions

The centrepiece of discussion on the Union Budget undoubtedly should be the aim declared by the Prime Minister last year to double the income of farmers by 2022. The Indian Council of Food and Agriculture's special report on doubling farmers' incomes notes, drawing on the same NSSO data reported above, that the average monthly income per household (the report erroneously says "per capita") from farming (cultivation plus livestock) increased from ₹1,060 in 2003 to ₹3,844 in 2013 in nominal terms, a compounded annual growth rate of 13.7%. It goes on to note that a further doubling by 2022, in nominal terms, would require a 15% growth rate, with the rate required being higher, of course, for a similar rise in real terms. In order to achieve this, the report demands restructuring of agriculture processes and policy interventions, since, as we saw earlier, the rate of growth of agricultural output has been far lower in recent years.

It is unexceptionable to say that the aim of agricultural policy should be that the sector perform better in terms of output, but it is important to note that growth rate of agricultural output is not the same as growth rate of income of farming households. Incomes may increase even when output does not, and output may increase even if incomes do not. First, income diversification means that a rapid rise in non-farm incomes can help achieve this goal even with a slow rise in incomes from cultivation and livestock. And going beyond incomes to quality of life, better delivery of public goods such as roads, housing, and healthcare can contribute to this goal without necessarily impacting the agricultural output figures. Second, output figures do not reflect the share of value actually going to farmers.

Hence, in considering the budgetary provisions for the rural economy, it will be helpful to divide it into three broad areas, namely, the farm sector, the non-farm sector, and general infrastructure. The total allocation for the rural sector is ₹1,87,223 crore in 2017-18, substantially

higher (24%) than the previous year. This can be divided into two major heads, Ministry of Rural Development (₹1,28,560 crore) and Ministry of Agriculture and Farmers' Welfare (₹52,655 crore). Overall, there seems to be a significant "rural push" as seen in the fact that the allocation for the Ministry of Rural Development has seen a substantial increase (42.5%) over two years going from actual spending of ₹90,235 crore in 2015-16 and ₹1,14,947 crore in 2016-17 to projected spending of ₹1,28,560 crore in 2017-18.

The major items in the rural development budget are MGNREGA (₹48,000 crore), Pradhan Mantri Awas Yojana (PMAY) (₹23,000 crore), Pradhan Mantri Gram Sadak Yojana (PMGSY) (₹19,000 crore), National Social Assistance Programme (₹9,500 crore), and National Rural Livelihoods Mission (NRLM) (₹4,500 crore). Of these the items that have seen major increases over the past two years are MGNREGA, PMAY (more than doubled in nominal terms since 2015-16), and NRLM (again just short of a doubling in nominal allocation compared to spending in 2015-16).

The big-ticket items in the Ministry of Agriculture and Farmers' Welfare budget are green revolution (₹13,741 crore, a 40% increase over 2015-16 spending), irrigation (₹7,377 crore), and crop insurance (₹9,000 crore). In this respect, it is to be noted that the allocation for the Pradhan Mantri Krishi Sinchayee Yojana (the irrigation scheme) while increasing, compared to previous year spending, has actually barely been restored to 2015-16 levels (when it was ₹7,781). It is not clear whether this is because of a separate allocation of ₹5,000 crore for micro-irrigation through National Bank for Agriculture and Rural Development (NABARD). The crop insurance scheme has also seen a substantial increase in allocation (up from ₹5,500, though actual spending in the previous year far exceeded allocation due to drought situations and the like).

The finance minister chose to headline the rural section of the Budget Speech with the substantially increased target for agricultural credit in 2017-18 at ₹10 lakh crore. This together with the modernisation of the rural credit system

proposed at a budget of ₹1,900 crore does suggest that the government is serious about credit for agriculture. But one cautionary note here is that 30% of agricultural households still depend on moneylenders and traders for credit. And this number has barely changed in 10 years (between the 2003 and 2013 surveys by the NSSO).

Finally, the rural emphasis is also seen in the fact that spending on the National Rural Health Mission (₹21,189 crore) constitutes the bulk of the National Health Mission budget (₹27,131 crore) and the NRLM (₹4500 crore) is the bulk of the National Livelihoods Mission (NLM) budget (₹4,849 crore).

Thus, for the farm sector one sees major commitment to credit, insurance, and green revolution technologies, but not enough on irrigation. There is also a notable lack of emphasis on ensuring remunerative prices for farmers, a long-standing demand of farmers' unions across the country. For the non-farm sector, the emphasis is rightly on employment generation via MGNREGA and NRLM, but again not enough (more on this later). On infrastructure, we see a push towards rural housing, health, and roads. Thus, while everything depends on implementation and there is many a proverbial slip between the cup and the lip, it should be acknowledged that several key areas have been covered and even improved at least in terms of budgetary allocation.

Given the rapidly increasing importance of non-farm employment, the two policies of special interest are the NRLM and MGNREGA, the latter of course being several times larger than the former. The NRLM follows a self-employment, self-help group-based model that has long been the favourite of "entrepreneurial" microfinance-type interventions. It is not easy to get good official data on how effective it has been in creating decent livelihoods and there is a real paucity of research on it as well, specially compared to MGNREGA. That the Narendra Modi government has been making many noises about rural skill upgradation and employment is not in doubt, but there needs to be a lot more work done by economists and others on what has

been the impact so far of policies such as NRLM or Skill India.

Closer inspection of the MGNREGA numbers also reveals something troubling. The substantial increase in budget from ₹38,500 crore to ₹48,000 crore was highlighted by the finance minister in the Budget Speech and was welcomed. But the fact to note here is that while the budget estimate for 2016-17 was ₹38,500 crore, the revised estimate for the past year (the money actually spent) is ₹47,499 crore. This is a huge increase over the actual spending for 2015-16, which was ₹37,341 crore. Thus, the new budget allocation is merely keeping up with the demand for employment in the countryside.

Reviving the Rural Economy

In addition to raising agricultural productivity and ensuring remunerative prices, robust growth in rural non-farm employment opportunities, and in particular, livelihood generation in manufacturing and public services (health and education) are important to raising rural incomes and breathing life into the rural economy. The positive externalities in terms of relieved pressure on cities are too obvious to need elaboration. In this respect, the budget does contain several promising moves. The question is, are they enough in quality and quantity terms?

One clear lacuna is a bold vision for rural industrialisation. The broad picture from rural India is one of diversification of livelihoods from agriculture to construction (including MGNREGA) and other low-paying service jobs. Manufacturing job growth has been comparatively weak and as we saw, its share is declining. In part, this is explained by a national and global trend of “premature deindustrialisation” highlighted by Rodrik (2016) and Amirapu and Subramanian (2015). Peak industrialisation is occurring at lower levels of per capita output across the world, except in East Asia. Fighting this trend requires coordinated public action.

A beginning can be made using MGNREGA itself. From calling this scheme “a testament to the failure of the UPA [United Progressive Alliance],” the Modi government has clearly moved to

embrace it, perhaps out of necessity. While many problems of implementation exist, the scheme has been a success. It may be time to consider expanding it beyond public goods like roads, ponds, and so on. Indeed there is already a provision under the programme for farmers to undertake construction of private goods (such as wells on private land). In such cases the government pays for the labour input. This idea can be carried forward to an extended wage subsidy programme for the rural private sector. This will allow people to work in occupations that they are already trained for, rather than on construction and other putatively “unskilled” work. Indeed, reports from rural areas indicate that, in addition to farmers, skilled weavers and other workers are taking to MGNREGA work due to distress. Observers have noted that this is skill-destroying (Sharma 2015). One such proposal for MGNREGA expansion is outlined in Basole and Jayadev (forthcoming).

This also brings to light a relatively underemphasised aspect of MGNREGA, the output side. This government has always stressed the asset creation aspect of MGNREGA and rightly so. There are now studies to indicate that, despite wide regional variability, at least a few states have succeeded in creating functional assets that will aid the growth of productivity in agriculture. The clear challenge now is how MGNREGA can be expanded to become a more meaningful employment guarantee programme that utilises the skills widely available in rural India and enables workers to build on those skills.

Apart from the usual objections of corruption, leaky buckets, etc, an immediate objection to the above suggestion is likely to be that this will run afoul of fiscal consolidation. This of course begs the question that should be raised every budget season: why are we so obsessed with the fiscal deficit and international ratings? Paying inordinate attention to ratings is consistent with the insistence on foreign domestic investment as a path to development. But India is capable of financing its own development path. The only other reason for the emphasis on fiscal prudence is the popular yet flawed “crowding out” argument

that has been challenged many times in academic literature as well as popular media and that the government also does not believe in, as indicated by the argument that public spending will boost private investment. Thus, there are no other good reasons for insisting on such arbitrary targets such as 3% or 3.2% for fiscal deficit. If there is political will, there is also a fiscal way.

NOTES

- 1 The Reserve Bank of India sectoral growth series changed base years in 2011, hence the data are shown separately for the period between 2000 and 2011. Some sectors have been omitted to avoid clutter. These are mining, electricity, and personal and public services. But in all these cases too growth rates generally exceed those in agriculture.
- 2 This agrees with the most recent available NSSO data (57.8% agricultural households among all rural households). But it should be noted that this number varies widely across states from a high of 78% in Rajasthan to a low of 27% in Kerala (Gol 2014a).

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