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# The not so green shoots of rural revival

## Rural rebound and its role in reviving the economy are overstated

**T**he performance of the rural economy is important as around 70 per cent of the country's population and workforce reside in rural areas. Increase in their purchasing power is crucial to creating demand for goods and services of the entire economy. In this context, we examine the present state of the rural economy and the measures needed for its revival, which can also help in improving the overall economy.

The impact of Covid-19 on rural India is much less than in urban areas. There are also reports that the rural economy is reviving after the lockdown. It is true that the only saving grace for the Indian economy now is the performance of the agricultural sector. In FY21, agricultural gross domestic product (GDP) is expected to grow at 2.5 to 3 per cent, although GDP for the overall economy may contract by 5 to 8 per cent. India is likely to have a bumper crop in both Kharif and Rabi seasons due to normal monsoon. However, bumper crops can lead to fall in farm prices. Farmers may not be able to get remunerative prices as there are still supply chain problems.

Moreover, the agriculture sector is only one part of the story in rural

areas. The non-farm incomes and employment have been increasing over time. In fact, a NABARD survey shows that only 23 per cent of the income for rural households is from agriculture. A NITI Aayog study pegs the rural economy's contribution to national income at 46 per cent. It also indicates about two-thirds of rural income is now generated in non-agricultural activities.

As mentioned in the Reserve Bank of India's (RBI's) Monetary Policy Report, in the pre-covid-19 period the rural economy was under stress as terms

of trade had moved against agriculture and growth in rural wages was subdued partly due to the slowdown in the construction sector. Covid-19 has further impacted the already stressed rural economy. Data from the Centre for Monitoring Indian Economy shows that unemployment rate in rural areas rose from 8.4 per cent in March to 22.9 per cent in April, 22.5 per cent in May and 10.5 per cent in June this year. In other words, millions of rural labourers also lost jobs apart from huge losses for labourers, including migrant workers, in urban areas.

The Centre, the state governments and the RBI have recognised the challenges and responded with

several measures. The Union government package consists of free food transfers, cash transfers, rise in the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) funds, front-loading of PM-Kisan, reforms in the agriculture sector and so on. But, these measures may not be enough to offset the reduction in remittances and low growth in rural wages. To top it all, the pandemic is now also spreading to tier 2 and tier 3 towns and rural areas.

In June and July, rural recovery outpaced that of urban areas, and it reflected in the increased demand for fast-moving consumer goods, tractors and two-wheelers. However, this rural revival is the result of pent up demand after the lockdown and may not be sustainable over time due to low rural wages and falling incomes. Thus, gains due to fiscal measures may not be enough to revive the economy — be it rural or urban.

What should be done to revive the rural economy? First, farmers' incomes have to be raised. Rise in minimum support price may be necessary but revival of

supply chains is needed to ensure higher prices. The agriculture reforms relating to the Essential Commodities Act, agricultural marketing and contract farming would help in raising incomes in the medium term. However, the government has to provide more clarity on these reforms, including on the Centre-state coordination. Similarly, agriculture exports have to be promoted with consistent long-term policy on exports. *Atmanirbhar* means we have to be self-confident and tariffs should not be increased.

Second, relief measures have to be expanded to include migrant workers. In June, the prime minister announced extension of free rations for over 80 million people by five more months till November-end. However, the government has to make sure that no one is excluded. Similarly, the amount of cash transfers and the number of days under MGNREGA have to be raised. Former RBI governor C Rangarajan and I have suggested minimum basic income for the poor and vulnerable in the post-covid period. A one-time fiscal space has to be created and we should get back to fiscal stability in the medium term.

Third, recently RBI governor Shaktikanta Das mentioned the need for investment in infrastructure. Investing in rural infrastructure is essential for raising employment and wages. We have to go beyond farming and invest in warehousing, logistics, processing and retailing. Similarly, rural construction is important for employment creation and enhancing rural wages. During 2004-05 and 2011-12, construction played an important role in raising wages of rural workers.

Fourth, around 51 per cent of micro, small and medium enterprises (MSMEs) are in rural areas and they have to be revived. Covid-19 is a big shock for these MSMEs, which were already reeling in the aftermath of the non-banking financial company crisis. There are also opportunities in the space vacated by China. India can't become self-reliant without dynamic MSMEs.

Lastly, agriculture and non-agriculture linkages, rural-urban connections are important for rural revival. Professor T N Srinivasan argued that the solution for agriculture lies in labour absorption by non-agriculture. Similarly, urban fiscal stimulus, solving the twin balance sheet problems of the corporate sector and banks would help rural India because of rural-urban linkages.

To conclude, the recent rural rebound and its role in reviving the entire economy are overstated. The government's relief package and a bumper crop would help in raising demand and incomes. However, they may not be able to offset lower remittances; loss of jobs and continued pressure on rural wages. For rural revival, there is a need to take measures to raise farmers' incomes, improve supply chains, enhance relief measures for informal workers, including migrants, increase investment in infrastructure, particularly construction, develop MSMEs and rural-urban linkages. This will help create demand and revive the entire economy as it would enhance purchasing power of a large section of the population whose marginal propensity to consume is high.



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