Source : www.thehindu.com Date : 2021-06-25

THE RURAL ECONOMY CAN JUMP-START A REVIVAL

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

The second wave of the COVID-19 pandemic could be slowly receding with a decline in the official estimates of daily infections and deaths. The economy is also very gradually getting back to normal, with many States beginning to ease some of the restrictions imposed in their lockdowns. However, the challenge of an economic recovery is far more serious than the health pandemic despite official claims of there being an economic recovery. Last month, the National Statistical Office (NSO) released the estimates of the Indian Gross Domestic Product (GDP) growth for the fiscal year 2020-21. The decline in GDP, at 7.3%, was slightly better than expectation, even though this is a gross underestimate of the reality given the methodological issue of underestimation of the economic distress in the unorganised sector.

But what makes economic recovery challenging is that this decline followed three years of sharp decline in GDP even before the novel coronavirus pandemic hit the country. Economic growth had already decelerated to 4% in 2019-20, less than half from the high of 8.3% in 2016-17. Since then, the slowdown in the economy has not only made things worse as far as economic recovery is concerned but also come at a huge cost for a majority of households which have lost jobs and incomes. The pandemic has only worsened an already fragile economic situation. The sharp decline in GDP was partly a result of the trend of a slowdown in economic activity since 2016-17. But a large part of the economic outcome in the first year of the pandemic is also a result of a mishandling of the economic situation.

Tackling rural economic distress

While a strict national lockdown certainly hit economic activity last year, what made matters worse was the less than adequate response from the Government in increasing fiscal support to revive demand in the economy. Many of the grand announcements remained largely on the monetary side without the enabling policy framework to help small and medium enterprises as well as the large unorganised sector which bore the brunt of the restrictions in economic activity.

Despite the lack of fiscal support, an important contributor to the better-than-expected economic performance was the resilience of the rural economy, particularly the agricultural sector. While rural areas were the first point of refuge for a majority of migrants who walked back thousands of kilometres from urban metropolitan areas, agriculture was the only major sector (other than electricity, gas, water supply and other utility services) which reported an increase in Gross Value Added (GVA) in 2020-21. It not only provided jobs to returning migrants but also sustained the economy in the rural areas.

Agriculture has not only been the biggest saviour during the period of the pandemic but has consistently been an important driver of the economy throughout the last five years which has seen the economy slow down sharply. The average growth rate in agriculture GVA in the last five years, at 4.8%, is significantly higher than the GVA growth of the economy as a whole, at 3.6%, in the last five years.

Editorial | Flashing lights: On sliding economy and cash transfers

But can the rural sector play saviour again? Unlikely, in the present context. And it will not be due to any natural calamity such as drought but a result of the neglect and policy missteps by the Government. Even though the lockdowns imposed by the State governments at the beginning of the second wave were less severe when compared to last year, they did impact the non-agricultural economy as is evident from the high frequency data for the last two months. The expectation of positive growth in this fiscal year may suggest recovery. However, given that the economy has already suffered last year, any recovery will largely be a statistical artefact driven by the low base of last year rather than a real recovery. The fact that a majority of households have already suffered job losses and income decline which are yet to regain their pre-pandemic levels suggests caution in making any inference on an economic recovery.

However, even the aggregate data are unlikely to capture the actual extent of devastation in the rural areas. While this is true for even the basic estimates of death and the health catastrophe caused by the pandemic, it is even more severe in its economic impact. Similar to the official statistics which have underestimated deaths due to the pandemic in most States — as has been brought out recently in several newspapers — the economic distress in rural areas is also largely unreported and underestimated.

MFIs flag rural borrower distress to RBI

The second wave affected rural areas disproportionately, in terms of health but also in terms of livelihoods. Many households have lost an earning member and an equally large number have spent a large sum on private health care expenditure in dealing with the infection. It will not be surprising if rural areas now witness a sharp rise in indebtedness from non-institutional sources.

However, the response from the Government has not been commensurate with the scale of the pandemic in rural areas. Unlike last year, the Government has not increased the allocation this year for the National Rural Employment Guarantee Scheme (NREGS). For the country as a whole, despite an increase in employment demand in NREGS, the person-days generated in May 2021 was only 65% when compared to May 2020. While the free food-grain scheme has been extended this year as well, it does not include pulses as was provided last year. Similarly, there has not been any cash transfer to vulnerable groups, unlike last year.

An agriculture-led revival as flawed claim

The impact of declining incomes and job losses on demand is now visible even in rural areas. While real wages have continued to decline with the latest estimates of April 2021 showing a decline in rural non-agricultural wages by 0.9% per annum in the last two years, agricultural wages continue to stagnate. One indicator of declining demand is the decline in wholesale prices of most of the agricultural commodities. Cereals and vegetables, which together account for more than half of crop output, have seen prices decline on a year-on-year basis for more than six months now. This is happening at a time when international agricultural prices are at an all-time high.

Some of this is reflected in the rise in inflation in pulses and oilseeds groups, both of which are largely imported. The net result is a peculiar situation where output prices for dominant agricultural commodities in the domestic market are declining while consumer prices of essentials such as edible and pulses are contributing to rising inflation.

Tracking the pandemic’s rural march

Rising inflation further threatens to reduce the purchasing power of the rural economy struggling with declining incomes and job losses. This is further compounded by the shift in terms of trade against agriculture which has put agricultural incomes under strain. The rise in input prices for diesel has already contributed to rising input costs but the recent increase in fertilizer prices for most of the complex fertilizers have also added to the misery of farmers. Rising inflation in international commodity prices also threatens the rural non-farm economy. A majority of the rural non-farm sector already struggling from low demand has now seen its profit margins getting impacted due to the increase in the cost of raw material.

When COVID-19 goes to the villages: challenges of managing the pandemic in rural areas | The Hindu In Focus Podcast

Despite these setbacks, the rural economy including the agricultural economy continues to remain crucial for any strategy of economic revival. But for that, it will require proactive intervention from the Government to protect the rural population by speeding up vaccination. Unfortunately, so far, the rural areas have been lagging behind in the overall rate of vaccination. At the same time, rural areas will also need greater fiscal support, both in terms of direct income support to revive demand in the economy but also through various subsidies and protection from the rising inflation in input prices. This urgent intervention is not just necessary to support economic revival but also prevent another humanitarian crisis, this time as a result of economic mismanagement.

Himanshu is Associate Professor, Centre for Economic Studies and Planning, School of Social Sciences, Jawaharlal Nehru University, New Delhi

END