Long-run trends in rural wages

Wage rates for agricultural and non-agricultural labour in rural India have been in the news recently. First, in his *The Indian Express* column, Surjit Bhalla argued that demonetization was not bad for the rural economy since the growth of wage rates had increased from around 2% in mid-2016 to 5.7% in mid-2017. There followed a response by Himanshu in *The Indian Express*, using the same data to show that Bhalla's conclusions were valid only for select occupations. More importantly, he pointed out that a recovery in rural wages had started before demonetization and that this recovery came on the heels of a longer period of declining real wages since May 2014. However, he used wage levels rather than growth rates in his analysis and interpreted Bhalla as saying that demonetization had increased wage rates. Both these points were criticized by Bhalla in his response.

Himanshu is right in saying that the uptick in wage rate growth started before demonetization, around August-September 2016. For the selected occupations shown here, growth rates went from near zero or negative in August 2016 to around 3% in November 2016. Post-demonetization, in the December 2016 to July 2017 period, the growth rate no longer rose and in fact plateaued in the 4-5% range. The trends are similar for other occupations. So while it is a relief that demonetization did not reverse the growth trend, it may have slowed it down—though, of course, no firm causality can be inferred until seasonality as well as other relevant factors affecting the rural economy are taken into account.

If we step back from the immediate context of this debate, however, the long-run dynamics are worth examining. It has been a roller-coaster ride for rural wages over the past few years. The accompanying figures show inflation-adjusted wage rates as well as the rates of growth over a two-decade period. After enjoying unprecedented high rates of growth between 2010 and 2014, rural wage rate growth collapsed in late 2014. This was followed by a period of very slow growth till late 2016. During this period, the average year-on-year growth in wage rates was either zero or around 1-1.5%, depending on the occupation. This collapse and stagnation deserve a closer look than they have received thus far.

The period before 2010, in real terms, was a period of complete stagnation. To put this in perspective, the high growth regime in the early 2000s wherein the Indian economy grew at 7% on average in real terms delivered virtually no increase in rural wage rates. Recall here that according to the National Sample Survey Office's Situation Assessment Survey of Farmers) (2012), wages constitute a key source of income for a large proportion of rural Indians, including those who cultivate their own land.

This dismal picture started to change in 2010. The period from the middle of 2010 to the later half of 2014 stands out as one of historically high rates of growth, at times faster even than the growth rate of GDP (gross domestic product). This has been attributed to increases in agricultural productivity, increased activity in the construction sector and the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), falling labour force participation of women, as well as general urbanization. Thus, in some respects, it may be valid to think of this a period during which there was a substantial drawing down of surplus labour reserves in agriculture.

Coming on the back of a prolonged period of stagnation, high-growth rates should have been welcomed since they enabled some degree of catching up between the rural and urban sectors. Instead, they were seen as a problem due to inflationary concerns. But citing the rise in agricultural wages as causing food-price inflation without any consideration of the way value is distributed across the agricultural value chain or of other supply-side constraints is problematic. In this respect, two items from Raghuram Rajan's list of desirable policy measures are worth

emphasizing: a reduction in the wedge between what the farmer gets and what is paid by the household by reducing monopoly power and improving logistics, and improving farm productivity through more investment. These two items have long been the obvious measures to implement to solve the quandary and yet not enough has been done about either.

The general tendency to interpret rural wage-rate data in terms of its implications for inflation rather than welfare of the rural population continued even when growth collapsed in the latter half of 2014. It was seen in some circles as a “positive development”. Along the same lines, the Reserve Bank of India’s Monetary Policy Report from April 2015 called the deceleration in rural wage growth “a favourable but unanticipated development that restrained cost-push pressures”. An exception was a *Mint* article from May 2016 which concluded the past two years had been a “disaster” for rural labourers.

This collapse has received much less attention though a reversal of the same factors that led to the increase is suspected. The reasons need to be investigated further. It is worth noting that indexation of MGNREGS wages to inflation and to the state minimum wage for unskilled workers was also cited by Rajan as another link between the public works programme and strong rural wage growth. Thus one possible explanation for the collapse in wage rates post-2014 may be that under the new regime, MGNREGS wages have not been systematically indexed to minimum wages—and indeed, in some states they have increased at a pace far slower than inflation (in extreme cases, by a rupee per year).

To summarize, if we compare the average rate of growth for per capita gross national income over the three periods to the average rural wage-rate growth, a striking picture emerges. While national income continued to grow in real terms at the rate of 7% over all three periods, this growth translated into improvements in rural wages at a commensurate rate only for the middle period, when wage growth was over 8%. In the first period (1999-2010), wage rates grew on average at 0.33% per annum, while in the third period (after 2014), they grew at 1.7%. Much can be learned from a more thorough investigation of these three periods.

Amit Basole is an associate professor of economics at Azim Premji University, Bengaluru.

Comments are welcome at theirview@livemint.com

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