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Mitigating Economic Distress in Rural India

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Abstract

The monthly per capita consumption expenditure (MPCE) of fifty per cent of the people in rural India was below the average MPCE of Rs. 3773/-. The MPCE depends ultimately on monthly per capita income, which continues to be very low in the rural areas. The paper argues that small and declining agricultural holdings and low employment opportunities are the main reasons for the low incomes in the rural areas. Well thought-out government policies and development of appropriate institutions can bring about the desired change in the country.

Keywords

monthly per capita consumption expenditure, price deflator, employment, unemployment, underemployment', intervention price, target price.

I. Introduction

According to the just released Household Consumption Expenditure Survey (HCES, 2022-23) by the NSSO (Government of India), the average monthly per capita consumption expenditure (MPCE) in the rural areas of India stood at Rs. 3,773/- in 2022-23. This is without imputing the cost of free ration provided to the large number of people under the National Security Act, 2013. Together with the free ration, the average MPCE in rural areas stood at Rs. 3860/- during the year.

As per the 68th round of the NSSO survey, on the other hand, the average MPCE in the rural areas stood at Rs. 1,430/- in 2011-12. This figure cannot, however, be compared with Rs. 3860/- estimated for 2022-23 as both these figures are in current prices. Table 1. below provides the comparable values of average MPCEs for the different survey years, using the price deflators with 1986-87 as the base year. The comparable MPCEs show improvement in monthly per capita expenditure over the years. The margin of difference is highest between 2011-12 and 2022-23, but then the difference in years during these two surveys is of ten years compared to a difference of five years between the previous surveys (Table 1).

Table 1. Trend in level of Monthly Per Capita Consumption in Rural areas: All-India (Current and Constant Prices)

	1999-'00 **NSS (55th round)**	2004-05 **NSS (61st round)**	2009-10 **NSS (66th round)**	2011-12 **NSS (68th round)**	**2022-23, HCES** (inclusive of the computed value**)**
MPCE at Current Price	486	579	1,054	1,430	3860
MPCE using Price Deflator (RL)	**158**	**168**	**208**	**234**	**350**
Price Index (AL) (1986-87=100)	308	343	507	610	1100
Source: NSSO Surveys (various rounds), HCE Survey, 2022-23 and Labour Bureau, Government of India.					

Further analysis of the MPCE, based on the different fractile classes, shows that the MPCE of the bottom five percent at Rs. 1,373/- in 2022-23 was less than half the national average MPCE. Since the average MPCE of the next fractile classes up to the fractile class of 50 to 60 per cent also ranged from Rs. 1782/- to Rs. 3455/-, it meant that the average MPCE of more than fifty per cent of the rural population was below the average MPCE of Rs. 3773/- (Table 2).

Table2. Average MPCE across Fractile classes in 2022-23 : All-India (Rural)

Fractile Class	MPCE, 2022-23 (In Rs.)	MPCE inclusive of free ration, 2022-23 (in Rs.)
(1)	(2)	(3)
0-5%	1,373	1460
5-10%	1,782	1869
10-20%	2,112	2199
20-30%	2,454	2541

30-40%	2,768	2855
40-50%	3,094	3181
50-60%	3,455	3542
Source: Household Consumption Expenditure Survey, 2022-23		

The value of MPCE inclusive of free ration in Table2 (column 3) above has been arrived at by adding Rs. 87/- to the other values of MPCE as that is the difference between Rs.3860/- and Rs.3773/-; the two separate values provided in the HCE Survey, 2022-23. According to the Survey (2022-23), furthermore, the rural households incurred as high as 46 per cent of their consumption expenditure on food items. Since the price of food grains has shown a very big increase in recent years, it might well be conjectured that the rural households are faced with real hardship in managing their consumption expenditures.

The free ration valued at Rs. 87/- works out to merely four per cent of their average food consumption expenditure of Rs. 1750/-. Free ration of food grains is, therefore, far too insufficient to overcome the economic distress in the rural areas. The answer lies in broad policy measures to: (a) keep inflation under reasonable control, (b) ensure higher agri-GDP growth, (c) ensure higher employment in the rural areas and (d) allocate higher public expenditure on health and education for sustainable growth.

2.State wise analysis of Monthly Per Capita Expenditure

The economic condition in the rural areas is more difficult in the states of Assam (Rs. 3432), Bihar (Rs. 3384), Chhattisgarh (Rs. 2466), Jharkhand (Rs. 2763), Madhya Pradesh (Rs.3113), Meghalaya (Rs.3514), Odisha (Rs.2950), Uttar Pradesh (Rs. 3191) and West Bengal (Rs. 3239), where the average MPCE was below the national average. Amongst the major states with sizable rural population, the better off states have been Andhra Pradesh (Rs. 4870), Himachal Pradesh (Rs.5561), Kerala (Rs.5924), Punjab (Rs. 5315) and Tamil Nadu (Rs. 5310) with their average MPCEs being above the national average (Appendix 1).

3. Employment-unemployment conditions in Rural India

As per the latest (published) comprehensive NSSO survey (68th round, 2011-12) that provided data on employment-unemployment besides providing data on consumption expenditure, as high as 68.8 per cent of the households in India lived in the rural areas, that is, 71.2 per cent of the total population (77,44,30,100 persons). Out of this total population, 40.6 per cent constituted the labour force (31,44,18,621 persons).

While sixty percent of this labour force was engaged in ‘agricultural activities’ (mainly in farming followed by animal husbandry, fisheries and horticulture), thirty percent of the labour force was engaged in ‘non-agricultural activities’ (such as household industries, retail trade and construction etc). Whereas 49.8 per cent of the people were ‘self-employed’, as high as 44.1 per cent of the people were depended on ‘wage employment’ during the year.

Labour force participation, based on the usual status activity (including both principal and subsidiary occupation), considered a person as ‘employed’ if she/he was employed in a particular activity for a longer period during the year (> six months in the case of principal occupation and > one month in the case of subsidiary occupation). Accordingly, the unemployment rate was estimated to be equal to 1.7 per cent in 2011-12. In absolute terms, this amounted to a little more than fifty lakh people as ‘unemployed’ in the rural areas during 2011-12.

The subsequent Annual Periodic Labour Force Participation (PLFS) surveys conducted from 2017-18 to 2021-22, estimated the unemployment rate in the rural areas equal to 5.3, 5.0, 3.9, 3.3 and 3.2 per cent in each of the successive years. Higher unemployment rate in subsequent years in comparison to 2011-12, has been attributed to several factors including ‘the demographic transition’ with more people seeking employment, and the economic development not keeping pace with this increase in the labour force. Nevertheless, the unemployment rate in the rural areas declined from 5.3 per cent in 2017-18 to 3.2 per cent in 2021-22.

3.1 Magnitude of underemployment

The comprehensive NSSO survey (2011-12) also drew attention to the issue of ‘underemployment’ in the rural areas besides ‘unemployment’. Given the methodology of estimating employment based on ‘usual status activity, a person would be considered as employed even if she/he was without work for two to three months in a year. If such periods of unemployment are aggregated in person days, however, they make the employment-unemployment situation look grimmer due to ‘underemployment’.

The incidence of ‘underemployment’ has been more acute in the case of women, who constituted around twenty-five per of the labour force in rural areas. It is true agriculture, which is the main economic activity in rural India is characterised by peak periods of sowing and harvesting and there lies in-between the lean periods. Such lean periods are particularly difficult for the landless labour who are hand to mouth and desperately look for some employment opportunity during the lean seasons.

4. Re-peasantisation of Indian Agriculture

As a result of post-independence land reforms (howsoever restricted), demographic pressure and market forces, the dominant mode of production in Indian agriculture today is that of ‘peasant cultivation’**.** Out of 1578 lakh hectares of operated land in 2015-16, as high as 68.5 per cent of the area was operated by marginal farmers having less than 1 to 2 hectares of land.

The average size of operational holdings has been continuously declining over the years. It declined from 1.15 hectares in 2010-11 to 1.08 hectares in 2015-16.

The marginal farmers constituted 86.08 per cent of the total number of farmers in the country. As high as 98 per cent of the operational holdings was wholly owned and was self-operated during 2015-16. The number of wholly leased-in holdings was estimated at 5.31 lakh hectares (0.36% of the total cultivated area) and was highest in the marginal category (4.54 lakh hectares). Out of the gross cropped area equal to 1917.6 lakh hectares, moreover, the highest percentage share (25.6 per cent) was reported in the marginal category and lowest in the large category (8.4 per cent) (Agricultural Census, 2015-16).

Although the average size of operational holdings declined between 2010-11 and 2015-16, the food grains output in the country - both rice and wheat - went up! While rice (kharif) output increased from 80.65 million tonnes in 2010-11 to 91.45 million tonnes in 2015-16, wheat (rabi) output went up from 86.87 million tonnes in 2010-11 to 92.29 million tonnes in 2015 16.

5. Ways to mitigate the Rural Distress

The small and declining size of operational holdings as well as unemployment are the main reasons for poor incomes of households in rural India. There is scope to increase both the net sown area and gross cropped area through expansion of irrigation and similar measures. It would, however, be far-fetched to seek the solution of this gigantic problem of poverty through opportunities of employment in industry or services. Indeed, the solution lies in further development of agriculture (and allied services) itself.

The small and marginal farmers will have a pivotal role in bringing about this transformation. There is a marked tendency of higher consumption of pulses and their products, edible oil, milk and milk products, fruits and vegetables, eggs, fish and meat with the rising incomes per capita in the domestic economy (HCE Survey 2022-23 and Parikh 2013). This shift in demand provides newer opportunities to the farmers to augment their incomes through diversifying agriculture. There is demand for these agricultural products in the international market as well.

It was, therefore, argued that ‘Indian agriculture has to move to high-value agriculture (poultry, fishery, dairy, fruits and vegetables) with a value chain approach, from plate to plough, that is, a demand-driven system. For that, we need to think of policies and institutions through which our farmers can access pan India markets and even export markets on a regular basis. Be it through cooperatives or farmer producer organisations (FPOs), on digital commerce (E-NAM, ONDC type) or through contract farming with large processors, retailers, and exporters’ (Gulati 2024).

5.1 Farmer’s Producers Organisation (FPOs/FPCs)

The Government of India, together with the National Bank for Agriculture and Rural Development (NABARD), has floated the concept of Farmers Producers Organisation (FPOs). The FPOs may be registered as ‘a company’ or as ‘a cooperative’ by a group of small and marginal farmers. The Small Farmers Agribusiness Consortium (SFAC) set up in the different states provide equity as grants to eligible FPOs/FPCs (up to Rs. 10 lakhs) and provide credit guarantee to lenders (banks) for providing collateral free loan up to a maximum of Rs.1 crore to these companies/cooperatives.

It is quite evident, however, that the success of these FPCs/FPOs would depend greatly on good management. It was, therefore, observed, ‘The biggest scarcity in rural areas is the difficulty in getting professional managers’ (Sinha 2023). The Ministry of Rural Development has extended support on a pilot basis to Milk Producer Companies in select states through meeting the salaries of professional managers for a period of three to five years with the clear understanding that the FPCs would scale up their operations and pay their salaries subsequently from their own incomes (Sinha, 2023). The FPOs/FPCs, in this way, might create millions of jobs for the educated youth in the rural areas.

5.2 Minimum Support Price (MSP)

Prices in commodity markets are determined by the market forces of supply and demand. Since supply of agricultural produce is more immediately after harvests, prices are usually very low during this period. Lower prices of agricultural produce, in turn, amounts to lower returns and lower incomes. Governments in different countries have been adopting different price support measures to protect the farmer’s interests. Under its Common Agricultural Policy, the European Commission has followed for several years the price support policies of: (a) the ‘Intervention Price’ and (b) the ‘Target Price’.

While ‘the intervention price’ is meant to ensure that the farmers do not incur loss and their costs are fully covered, ‘the target price’ is meant to ensure a fair return to farmers over and above the cost of cultivation (Kumar, 1998). In the face of the recent controversy in India regarding the minimum support policy (MSP), it might be helpful to equate: [‘the comprehensive cost (C2) + the imputed price in agriculture’] for cultivating a crop to the ‘MSP’ and to equate: [‘C2 + the imputed price + 50% profit’] as the ‘Target Price’ for cultivating a crop. The details about the same could be worked out accordingly.

5.3 Decentralized Procurement of Food Grains

Procurement of food grains in the country is being made for both (a) maintaining the buffer stock and (b) for meeting the demand under the public distribution system. Since 1997-98, the state agencies have been also involved in procurement of food grains besides the Food Corporation of India (FCI). This was done to reduce the transportation cost of supplying food grains to different states under the public distribution system by procuring food grains from within the states. This has been a very positive development as the farmers in the states that did not benefit earlier from procurement of food grains by the FCI came to realise the benefit of MSP by selling their crops to the state agencies.

The decentralized procurement of food grains has, however, failed to take roots because of ‘the ad hoc policy’ of the Central government. Very often, adequate funds have not been provided to the state agencies to procure food grains in the desired quantity, and food grains for the PDS continues to be transported to these states from food grains procured in Punjab and Haryana.

5.4 Restructuring of Cropping Pattern

Agriculture in India today is beset with ‘overutilization’ of ground water in some areas (Haryana, Punjab) and ‘under-utilization’ of ground water in other areas (Bihar, eastern U.P., West Bengal). Cultivation of paddy in Punjab and Haryana is held mainly responsible for the withdrawal of ground water in these states beyond the estimated ground water potential. This has led to depletion of ground water resources in the region and the farmers have to sink wells deeper and deeper to access water.

Cultivation of paddy in the region has created yet another environmental problem of stubble (parali) burning - post harvest - as the fields need to be cleared of paddy stubbles for the sowing of wheat in the ensuing rabi season (September to November). As a result, the surrounding areas including Delhi face ‘severe air pollution’. A way out of this problem could be to incentivize farmers to switch over to a cropping pattern other than cultivation of paddy.

The governments - Centre and the states - could together compensate the farmers for the loss of incomes for switching over to crops requiring less water. This could be done through ‘savings’ arising from: (a) savings from ‘purchase tax’ paid by the Central Government for procurement of paddy from these states, (b) savings arising from budgetary expenditure incurred by the states for free supply of electricity to farmers during the summer months and (c) savings from budgetary expenditure incurred on pollution control by the different governments.

The deficit in procurement of paddy from this region, on the other hand, could be made up by the Food Corporation of India (FCI) by stepping up procurement from Bihar, eastern UP and West Bengal. Once the farmers in eastern-India - with unutilised ground water potential - have the benefit of minimum support policy (MSP), this would incentivise them to invest more in irrigation leading to higher production of paddy in these regions.

5.5 MGNREG Act, 2005 and Rural Employment

Under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005 livelihood security is ensured to one member of every household for at least 100 days of wage employment each year whose adult members volunteer to do unskilled manual work. This has supplemented the incomes of poor households in rural areas besides engagement in agriculture. As many as 10 crore people have benefitted on average each year from this scheme.

Wherever the funds so allocated have been imaginatively utilised, they have helped build dug wells, ponds and check dams, thereby augmenting minor irrigation in the area. Works such as vermi composting pits, soak pits, cattle sheds and rural roads have all contributed positively towards development of agriculture, besides providing employment to the people (Sinha, 2023).

5.6 Afforestation and Green India Mission

One very neglected area all these past years has been that of ‘forestry’. The Green India Mission (GIM), as envisaged under the Twelfth Five-Year Plan, indicated an outlay of ₹17,899 crores for five years with the objective to (a) increase the forest and tree cover on 2.5 million hectares in ‘non-forest area’ through agro/ social/ farm forestry and (b) improving the quality of tree cover in 2.5 million hectares of ‘existing forests. This translates to an outlay of ₹3,580 crores per annum. When corrected for inflation over the years, Rs. 3,580 crores work out to an outlay of approximately Rs. 6000 crores per annum.

Against this figure, however, the budgetary allocation of expenditure to the Ministry of Environment, Forest and Climate Change in recent years has been far below this figure. Agro/social forestry could be undertaken by the side of highways, besides the barren land. This would provide newer opportunities of employment and income to the rural poor. Grant of right over a fixed number of trees to the landless labourers engaged in the plant growth and in the upkeep of the trees, could also be considered under this initiative.

6. Concluding Remarks

The increase in the average MPCE in 2022-23 over 2011-12 should not lead to denial of economic distress in rural India. Despite some improvement, the MPCE of fifty per cent of rural households in India continues to be much below the national average of Rs. 3773/-. State wise analysis similarly show that the average MPCE in many states was much below the national average.

Per capita consumption expenditure depends upon per capita income, which is very low in rural areas. Small and declining agricultural holdings as well as low employment opportunities are the main reasons for lower incomes in the rural areas. What is required, therefore, is to step up economic activity in the rural areas. Well thought-out government policies and development of appropriate institutions can bring about the desired change. The focus, nonetheless, ought to be on further development of agriculture and allied services in the rural areas.

The threat of climate change and decrease in cultivable land over the years are no less worrisome. The net sown area in India declined from 1412.8 lakh hectares in 2010-11 to 1400.3 lakh hectares in 2015-16, that is, a decrease of more than 12 lakh hectares over a five-year period. Was this decline due to natural reasons such as erosion and desertification or due to manmade reasons such as salinity of soil arising from overuse of groundwater and encroachment of cultivable land due to ‘urbanization’? These challenges can be faced only collectively, by the government.

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Appendix 1

Table 3. Average MPCE by State & UTs in 2022-23

S. No.	State	MPCE (in Rs.)	S. No.	State	MPCE (in Rs.)
1.	Andhra Pradesh	4,870	20.	Odisha	2,950
2.	Arunachal Pradesh	5,276	21.	Punjab	5,315
3.	Assam	3,432	22.	Rajasthan	4,263
4.	Bihar	3,384	23.	Sikkim	7,731
5.	Chhattisgarh	2,466	24.	Tamil Nadu	5,310
6.	Delhi	6,576	25.	Telangana	4,802
7.	Goa	7,367	26.	Tripura	5,206
8.	Gujarat	3,798	27.	Uttarakhand	4,641
9.	Haryana	4,859	28.	Uttar Pradesh	3,191
10.	Himachal Pradesh	5,561	29.	West Bengal	3,239
11.	Jharkhand	2,763	30.	Andaman & N Islands	7,332
12.	Karnataka	4,397	31.	Chandigarh	7,467
13.	Kerala	5,924	32.	Dadra & Nagar Haveli and Daman & Diu	4,184
14.	Madhya Pradesh	3,113	33.	Jammu & Kashmir	4,296
15.	Maharashtra	4,010	34.	Ladakh	4,035
16.	Manipur	4,360	35.	Lakshadweep	5,895
17.	Meghalaya	3,514	36.	Puducherry	6,590
18.	Mizoram	5,224		**All-India**	**3,773**
19.	Nagaland	4,393			
Source: Household Consumption Expenditure Survey, 2022-23.					