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Rural Wage Stagnation in India: Trends, Drivers and Solutions

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Rural Wage Stagnation in India: Trends, Drivers and Solutions

Somiha Chatterjee and Akshita Sharma

As rural India shows steady growth, trends in real wages depict a different story with stagnating agricultural and non-agricultural wages for both men and women.

ABSTRACT

As rural India shows steady growth, trends in real wages depict a different story with stagnating agricultural and non-agricultural wages for both men and women. This paper analyses trends and studies the drivers behind the dismal state of rural wages in India. It also examines the Union Budget 2021-22 to assess its focus on addressing this rural wage distress in light of the findings.

CONTEXT

Strict lockdowns imposed at the outset of the pandemic triggered a demand crisis in the economy, impacting both rural and urban masses. Despite this, the rural economy emerged as a bright spot, with agriculture being the only sector that recorded a 3.4% growth (KPMG 2020: 4). There are several reasons behind this.

Apart from good monsoon rains, a 7% increase in agricultural land under cultivation, and plentiful water in irrigation reservoirs, government interventions undertaken to mitigate the pandemic's impact kept the rural economy afloat (KPMG 2020: 9). The increased spending to INR 1 lakh crore under MNREGA, transfers under the PM-KISAN scheme, free food grains under the PM Garib Kalyan Anna Yojana collectively helped boost rural demand.

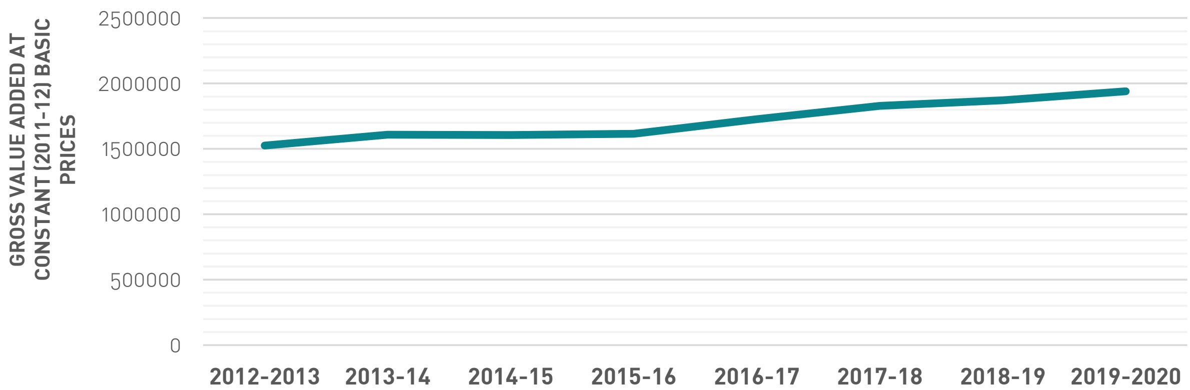
This reflected in higher rural sales reported by FMCG and automobile companies when in the second quarter of 2020, rural FMCG sales grew three times compared to national growth. In July 2020, Mahindra & Mahindra, which has the largest consumer base in rural India, witnessed a 28% hike in their domestic tractor sales — reportedly their highest ever July sales (Mahindra 2020). Reports also showed a spike in first-time e-commerce shoppers in rural India.

However, despite these relatively temporary signs of growth and recovery in the rural economy, rural wages growth has remained stunted. In fact, rural wages have been stagnant for a decade.

TRENDS IN RURAL WAGES

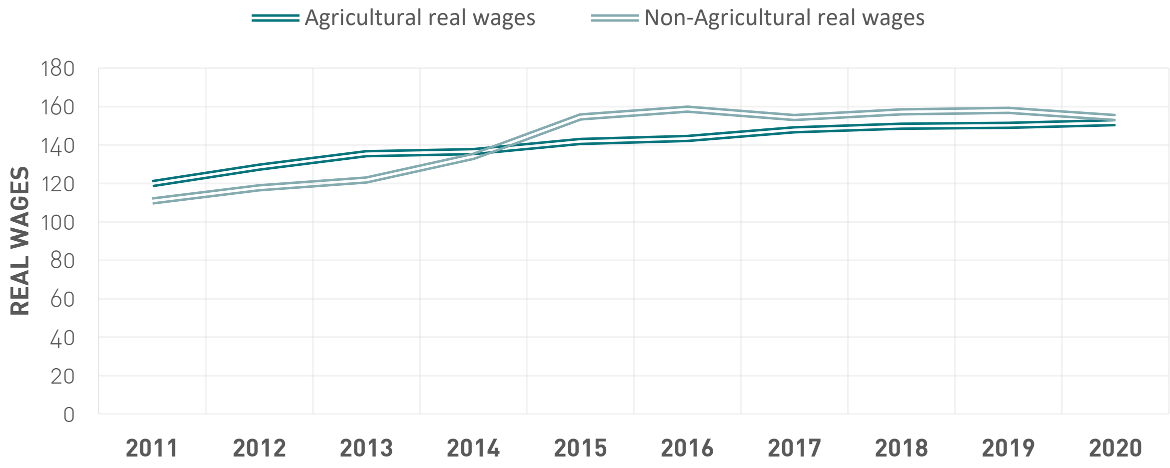
While the rural economy has been steadily growing, as reflected by the Gross Value Added (GVA) reaching INR 19,40,811 crores in 2019-20 (Figure 1), rural real wages depict a different story. Figures 2 and 3 illustrate the stagnating agricultural and non-agricultural wages for both females and males in the sector. For both genders, non-agricultural occupations have yielded higher wages than agricultural occupations. This can be attributed to the excess supply of labour in agriculture. The kinks observed in 2014-15 is explained by changes in the wage series in 2013 (Kundu 2019). After that, it is evident that rural wage growth has not been encouraging.

Figure 1: **Gross Value Added at Constant (2011-12) Basic Prices - Agriculture, forestry and fishing (₹crores)**



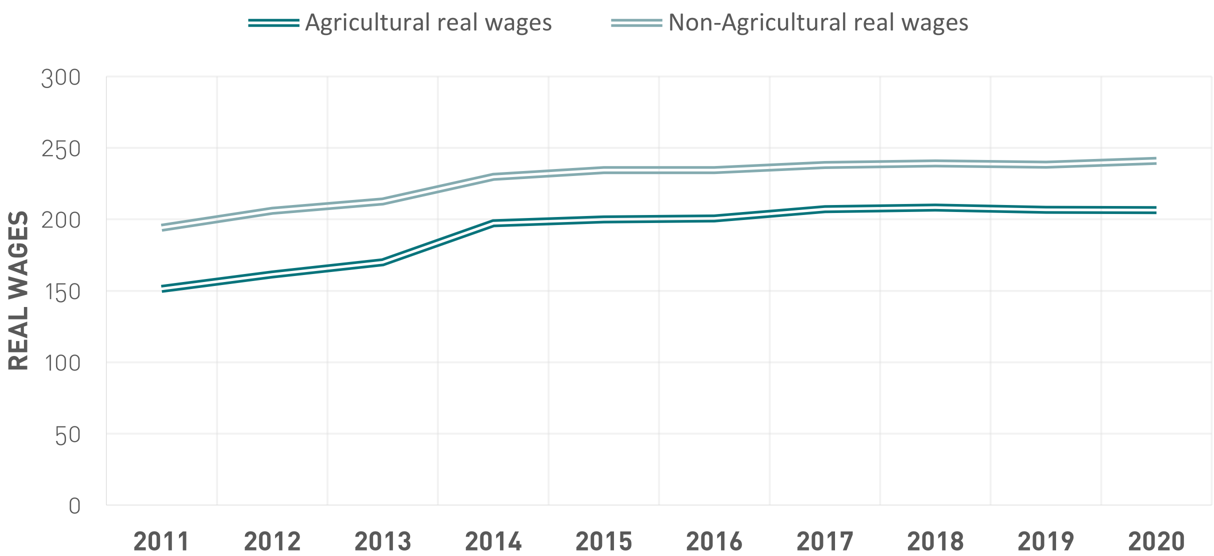
Source: Ministry of Agriculture & Farmers Welfare (2019)

Figure 2: **Real Wages (Female)**



Source: Labour Bureau (n.d.)

Figure 3: **Real Wages (Male)**



Source: Labour Bureau (n.d.)

Turning to the wage growth data, the male category shows that the agricultural (-0.83%) and non-agricultural real wage growth (-0.35%) was negative in 2019. In 2020, while the pandemic dampened growth by 0.1% in agricultural real wages, the non-agricultural real wages grew by 1.08%, which is still a better performance than 2019.

In the case of females, while the agricultural real wage growth was positive from 2018 onwards, the non-agricultural real wage fell by 2.34% in 2020. Simultaneously, the agricultural real wage growth saw a 0.88% rise, which is more than the 0.34% rise witnessed in 2019. Thus, for males, the loss in wages has been higher in agriculture, and for females, the loss has been higher in non-agricultural occupations.

In 2014, the wage series for data collection was changed, and more occupation variables were added, which caused some spike in wages across agricultural and non-agricultural categories. The sudden 15.33% increase in the female non-agricultural real wage growth seen in 2015 is a case in point.

Table 1: **Agricultural and Non-Agricultural real wage growth**

	Male		Female	
Year	Agricultural real wage growth (%)	Non-Agricultural real wage growth (%)	Agricultural real wage growth (%)	Non-Agricultural real wage growth (%)
2015	1.26	2.12	3.87	15.33
2016	0.45	-0.04	1.08	2.60
2017	3.15	1.56	3.14	-2.71
2018	0.60	0.46	1.25	1.86
2019	-0.83	-0.35	0.35	0.53
2020	-0.11	1.09	0.88	-2.34

Source: Labour Bureau (n.d.); Note: CPI (2012=100) used as a deflator.

WHY HAVE RURAL WAGES REMAINED DISMAL DESPITE ECONOMIC GROWTH?

In India, the primary income sources for rural households are either income generated from agriculture and allied activities or non-agricultural wages, both of which have lately dwindled. Real wage growth in both agricultural and non-agricultural sectors experienced a slump after 2014 and declined to negative territory by 2019 for certain categories. This section discusses the key factors dampening the rural wage growth in India.

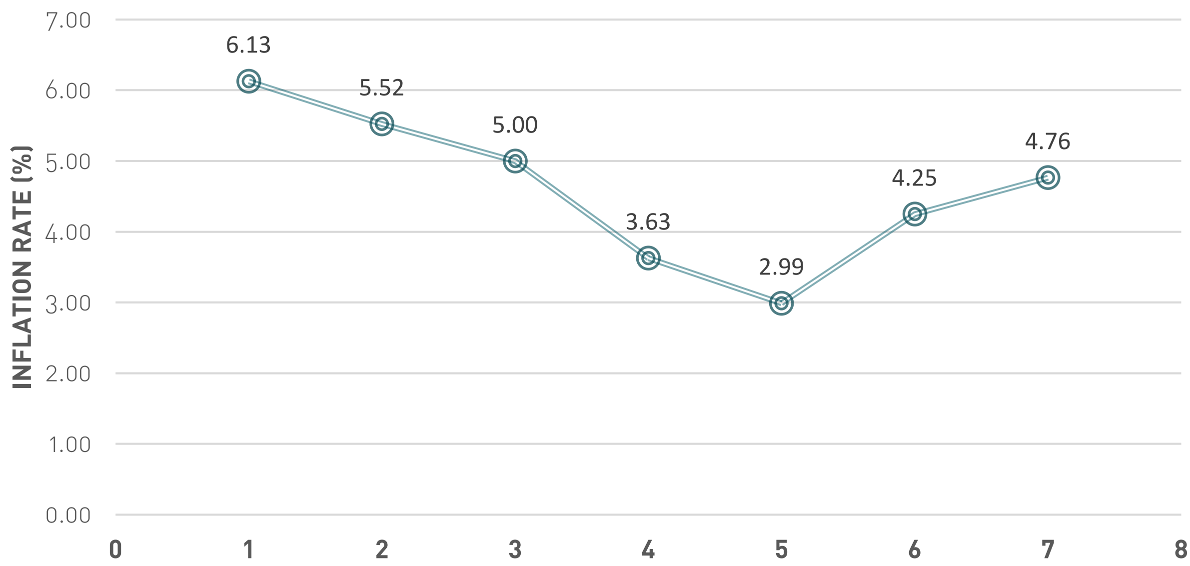
Inflation

Inflation is the increase in the general price level in an economy. This decreases the purchasing power of money one holds. Meaning, if the prices of everyday commodities increase, the same amount of money can buy less than what it purchased before. Thus, the nominal wages that one earns are different from real wages as the latter considers inflation and its dampening impact on one's purchasing power. Real wages, or the real purchasing power, is of higher importance.

Hence, the general wage-price relationship is such that when high inflation prevails, nominal wages must be increased in the market as well so that real wages do not fall. However, in India, while inflation rates have been in the range of 2-6% between 2014 and 2020, falling until 2018 and then rising thereafter, the real wages did not rise and fall accordingly.

Evidence shows that this is because Indian rural real wages are stubborn in nature. They do not adapt quickly to changes in market conditions. This means that when the economy witnesses price inflation, nominal wages are not adjusted in proportion, and as a result, the real wages fall. Studies show that this nominal wage adjustment happens only in the long run (Kundu 2019). Hence, while the rural Cost Price Index (CPI) had increased consistently from 92.8 in 2011 to 154.31 in 2020, the unchanging nature of wages meant real wage growth would not catch up with the price rise. During certain periods, inflation took over nominal rural wages, resulting in real wages being driven to negatives (ibid), as shown in Table 1 above.

Figure 4: **Inflation rates (%)**



Source: RBI (n.d.)

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

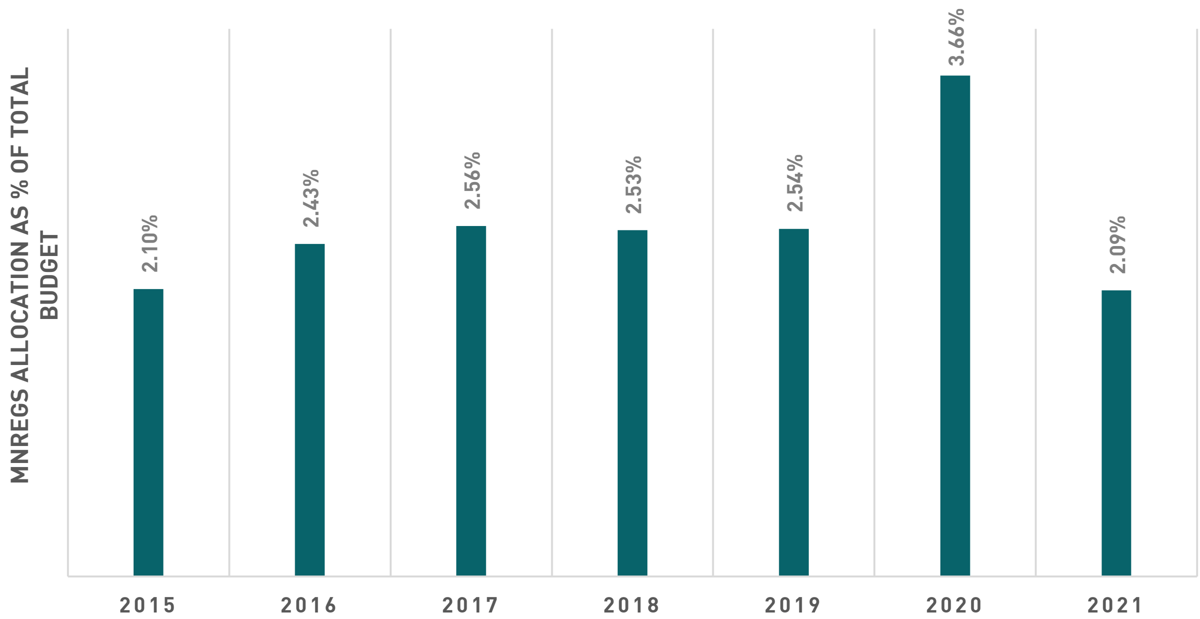
The implementation of MGNREGA since 2006 has been a crucial policy measure of the government and has had a significant impact on the rural labour market and rural wage setting. According to Nagaraj et al. (2016), daily wages of agricultural as well as non-farm labourers rose sharply after the introduction of the Act, in some areas by almost three times during the period of implementation of the programme. An empirical analysis conducted by Berg et al. (2012) indicates that there was a 5.3% rise in real agricultural wage rates due to employment under MGNREGA. According to these studies, the shift in labour towards work created by the scheme led to a labour shortage in agriculture, thereby driving up the wages in the sector.

After 2014, however, the employment under MGNREGA has been relatively lower compared to the period between 2008-09 to 2011-12. The average working days per household under MGNREGA reduced from 54 in 2009-10 to 46 in 2017-18 (Kundu 2019). Much of the programme's effectiveness lies in its implementation, the burden of which falls on the states. However, despite the scheme's intense implementation in states such as Tamil Nadu, Chhattisgarh, Kerala, and Andhra Pradesh, there have not been any significant increases in real rural wage growth (Kwatra et al., 2020).

The lack of systematic indexation of wages under MGNREGA to inflation has also been a key reason behind the decline in rural wages, as stated by former RBI governor Dr. Raghuram Rajan. According to him, the wages have increased at a rate much slower than the rate of inflation in various states (Basole 2017). The Nagesh Singh report advised indexing the MGNREGA wages to CPI-rural instead of CPI-agricultural as the former was found to be a better indicator of a wage increase. However, in 2018 the government rejected the recommendation stating that it would lead to an increase in budgetary allocation. This recommendation's rejection resulted in workers receiving less than minimum wages in 28 out of 36 States and Union Territories (Nair 2018).

In recent years, the insufficient budgetary allocation towards MGNREGA has been responsible for the program's failure to improve employment and wages. The allocation towards MGNREGA for 2021-22 has been slashed by 34.52% compared to the revised estimates for 2020-21, which is likely to have a severe impact on rural wages in the coming year given the high dependence on MGNREGA for employment in rural areas.

Figure 5: **Budgetary allocation towards MGNREGA as a percentage of the total budget**



Source: Official Union Budget data from multiple years.

Rural Non-Farm Employment

Numerous research studies have documented the significance of the non-farm sector in driving up farm labour wages in India. States with high rural non-farm employment (RNFE) share have been found to have higher wage rates as higher RNFE opportunities drive labour out of the agricultural sector, resulting in pushing up the wages (Venkatesh 2013: 14).

Construction Sector

Empirical analysis undertaken by Gulati et al. (2013) finding the link between growth in the construction sector, farm labour supply, and increase in farm wages draws inferences that growth in the construction sector GDP has a stronger influence on farm wages than the growth of overall GDP or even agricultural GDP. In the last four decades, employment in the construction sector increased 13 times. This led to a significant rise in its share in total rural employment, which increased from 1.4% in 1972-73 to 10.7% in 2011-12. The construction sector absorbed 74% of the new jobs created in non-farm sectors in rural areas between 2004-05 and 2011-12 (Chand et al., n.d.: 18).

However, the construction sector, which grew at a fast pace during 2000-12 and was the primary driver of rural non-farm employment during this period, slowed down significantly in the period after 2014 (Kundu 2019). Fixed investments in India's construction sector fell from 19.7% of GDP in 2012 to 15.3% in 2019 (Sharma 2020). The government's reduced capital expenditure in 2018 resulted in 15-60% cuts in production by construction companies (Thakkar et al., 2019). The decline in infrastructure projects taken up by public and private entities has resulted in a decrease in employment generated via the construction sector. This led to slower migration from the rural to the urban areas hence dampening rural wages due to excess labour supply in agriculture. With the onslaught of the COVID-19 pandemic, the situation worsened. The migrant exodus forced by the lockdowns saw the informal sector masses move back to their rural villages. As a result, the rural wages dipped, and the construction sector's growth slipped to -2.2% in the fourth quarter of 2020.

Roads

Evidence shows that there is a significant positive effect of increased government expenditure on road infrastructure and rural non-farm employment on agricultural real wages. Better roads increase both the farm and non-farm productions and hence agricultural real wages because of induced labour demand (Khandker 1989: 15). However, the economic slowdown that had set in before the pandemic contributed to the stalling of road projects as the government tried to reduce its capital expenditure. In the first eleven months of 2018, the government's capital expenditure dropped by 8%, and one of the major sectors affected by this was roads infrastructure (Thakkar et al., 2019). This might have had a dampening effect on rural wages too.

Agricultural Growth

Both agricultural real wages and rural non-farm employment grow in areas with better agro-climate favourable to agricultural growth (Khandker 1989: 19). However, the Indian economy has suffered through two consecutive droughts in 2014-15 and 2015-16, weakening the growth in agricultural GDP and hence, rural wages during this period (Kundu 2019).

While monsoon failures majorly caused the setback in the agricultural growth in 2014 and 2015, the roots of the agrarian crisis and its intensification lie in factors unrelated to weather conditions. The rise in prices of inputs like petroleum and fertilisers and increased vulnerability to international price fluctuations due to increased openness compounded the farmers' adversity. To add to this, the government was negligent towards the demand for remunerative prices for farm produce (Jha 2007: 1), and continuous budget cuts in agriculture-related schemes have worsened the crisis. As the agrarian crisis deepened, the agricultural labourers were worst impacted as their wages declined in the farm as well as non-farm sectors.

The Economic Survey 2019-20 noted that the average annual growth in agriculture remained stagnant in the last six years, which adversely affected farmer's income. Between 2014 and 2018, the annual real growth rate in agriculture was 2.88%, and it was 2.9% in 2019-20 (Jitendra 2020). Compared to this, agriculture was a bright spot in 2020 as it showed positive growth of 3.4%, and its share in GDP peaked at 20%, a record high in the last 17 years (Kapil 2021). However, this agricultural growth has not boosted agricultural wage growth as the real wages grew at -0.11% for men and 0.88% for women.

POLICY RECOMMENDATIONS: ASSESSING THE UNION BUDGET 2021

Bearing in mind the factors driving the slump in rural wages, the following are recommendations that can help rural India. Also, assessing the Union Budget 2021-22 can help identify hits and misses and what trends in rural wages can be expected in the near term.

1. Expand MGNREGA coverage and increase the number of workdays under the scheme

The budgetary allocation for MGNREGA in 2021-22 was reduced from INR 111,500 crore allotted in 2020 to INR 73000 crore in 2021, a decline of INR 38,500 crore as compared to the revised estimates for the previous year. Given the high demand for the scheme in rural areas, the allocated amount might not suffice the people's employment needs. The number of person-days for work under the scheme has reportedly been reduced to 270-280 lakh person-days instead of 311.88 lakh person-days generated in the year 2020 (DTE staff 2021). Experts claim that this is likely to result in wage payment delays and significantly impact the employment level that the scheme generates.

While programmes like MGNREGA can provide short-term relief by increasing the people's purchasing power, the rural sector's sustained growth and rural wages can be achieved only through skill-building and increased literacy rate. Thus, a considerable part of government spending must be dedicated to programmes that help generate and develop rural workforce skills.

2. Up-scale skill development programme to improve labour productivity

There is a need to identify skill gaps faced by the rural population and provide training in highly demanded skills in the labour market to boost employment in both agricultural and non-agricultural sectors. Here, technology-induced skill development programmes can help harness rural potential.

While schemes like PM-KISAN and MGNREGA act as safety nets for much of the rural population, skill development programmes are needed to improve labour productivity and act as a springboard towards gainful employment. The Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY), a placement linked skill development program for rural poor youth under National Rural Livelihoods Mission (NRLM), was introduced in 2014 for this purpose.

While there is no separate allocation for the DDU-GKY scheme in the budget statement, the NLRM component received a budgetary allocation of INR 11613.34 crore in 2021, increasing from INR 7886.04 crore in 2020-21. Until now, 10,86,143 people have been trained under the programme, and it aims to train 28,82,677 individuals by March 2022. This should provide an impetus to the rural youth and enable them to find higher-wage employment.

3. Increase public expenditure in rural infrastructure and rural employment programmes to boost rural non-farm employment and rural wages

The construction of rural roads contributes significantly to the development of the economy by creating opportunities to diversify rural incomes. An impact assessment of the Pradhan Mantri Gram Sadak Yojana (PMGSY) scheme found that 35% of households saw an increase in the number of days of employment in the principal occupation of their earning members post PMGSY. Additionally, out of 37% of households who reported an increase in total days employed of all earning members, 31% reported an increase in 51-100 days. Sixty-three per cent of households also reported an increase in average annual income (Ministry of Rural Development n.d.: 5).

Given the positive impact, the Centre had an excellent opportunity to increase its investment towards the PMGSY in 2021 to boost rural wages. The government, however, allocated a total of only INR 15,000 crore for the PMGSY scheme in the fiscal year 2021 as opposed to INR 19,500 crore that was allocated under this head last year. This reduction is likely to affect rural employment and rural incomes in the coming year.

The capital expenditure of the government in 2021 has, however, been increased by approximately 34.5%, which is expected to result in job creation through a multiplier effect and boost wages.

4. Increase minimum wages to meet expert committee recommendations

While the Code on Wages 2019 mandates a universal minimum payment of INR 178 per day, it is still less than half of the national minimum wage of INR 375 per day, recommended by an expert panel appointed by the Labour Ministry. This universalisation will improve compliance, drive up the wages in the formal sector, and eventually increase wages in the informal sector, including most rural occupations. However, the increase is only a mere INR 2 per day, raising questions on how much difference that will make on wages, in general, or rural wages, in particular. In fact, despite the universal increase, the Code also states that different floor wages will be set for different geographical areas (KPMG 2019: 1). Thus, we are yet to see how the implementation of the Code will pan out.

5. Need to strengthen agriculture into being more remunerative and resilient

The Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme was launched in 2018 to provide income support to all farmer households across the country and enable them to fulfil their agricultural requirements and satisfy their domestic needs. While the allocation for this scheme accounted for more than 50% of the allocation to the Ministry of Agriculture in 2020-21, it has been reduced by about 10,000 crores this year compared to the budget estimate of 2020-21. Last year, the government had announced that it had set the target of doubling farmer's income by 2022 (PIB 2020). However, the budget cut for the scheme this year tells a different story and raises the question of how the government is planning to increase farmer's income by 2022. Stagnant farm incomes impact the agricultural labour wages, which are likely to decrease further in the absence of a boost in farm income.

Due to the rain-fed nature of agriculture in India, agricultural productivity is heavily affected by agro-climatic conditions. With the worsening of climate change, the impacts on agriculture are getting grave, affecting the livelihoods and income of the people engaged in this sector. While India ranked 7th on the Global Climate Risk Index in 2021, the government slashed the Environment Ministry's budgetary allocation by INR 230 crores (Murthy et al. 2021). The lack of emphasis on ensuring the sustainability of the agricultural sector directly impacts the wages of the people involved in farming and allied activities.

The allocation for the Rural Infrastructure Development Fund (RIDF) has been increased to Rs. 40,000 crores from Rs. 30,000 crores in 2020, which is a move in a positive direction as it should improve agricultural infrastructure and contribute towards increasing employment and wages.

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