

# **THE ECONOMIC CRISIS AND RURAL LIVELIHOODS**

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1. After initially denying that the global financial crisis would have any significant impact on the Indian economy, the government of India has since admitted that this is indeed not the case and that the crisis would impact the economy. The latest review of the economy by the Prime Minister's Economic Advisory Council (EAC), released in mid January 2009 admits that its earlier projection, made in its Economic Outlook paper of July 2008, that the Indian economy would grow at 7.7 % in 2008-09, was no longer valid. The EAC now projects a GDP growth rate of 7.1 % for 2008-09, but even this is much higher than the projections of other commentators as well as the IMF, which generally range between 5 and 6 % for the year 2009.
2. The real issues, however, cannot be confined to or even primarily seen in terms of GDP growth rates. It is now well established that despite the annual growth rates in GDP of between 6 and 9 % over the many years of neoliberal reforms, the agrarian economy in particular and the rural economy in general, has been in a state of crisis, at least for a decade now. The rates of growth of agricultural output-in particular, that of food grains-have been generally low during this period. In fact, the output of food grain showed near-zero rate of growth between 1999-2000 and 2006-07, with area and productivity also being stagnant.<sup>1</sup> The recovery in agricultural and food grain output since then has not really made a significant difference. Rural employment grew more slowly between 1993-94 and 2004-05 as compared to the rate of growth between 1983 and 1993-94. Between 1993-94 and 1999-2000, there was practically no growth in agricultural employment and little growth in rural employment as a whole. The apparently much higher growth rate in rural employment between 1999-2000 and 2004-05 is largely composed of growth in self employment and almost entirely in the informal sector. Earnings in informal sector employment, both from wage and from self employment are known to be abysmal. Of the total estimated increase in employment of nearly 60 million (from 396.8 to 457. 5 millions) between 199-2000 and 2004-05, 52 million has been in the unorganized sector. Further, informal employment accounts for the bulk of the increase in employment in the organized sector as well. In fact, the number of formal

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<sup>1</sup> The Mid Year Economic Review of the Finance Ministry points out, that in the last three years, food grain output has grown by about 10 million tones per year, but this is against a huge decline that occurred during 2002-2004 on top of stagnation earlier. The increase in foodgrain output during 2008-09 may be more modest.

workers in the organized sector as well as the entire economy declined marginally between 1999-2000 and 2004-05. Quite apart from the tragic phenomenon of lakhs of farmers being pushed into committing suicides- a phenomenon that has not abated much in the recent period- the rural economic crisis is clearly manifested in the slow growth and poor quality of employment as well as abysmal earnings from work during the reform period.

3. The agrarian and rural economy has been negatively impacted by neoliberal reforms in at least five distinct ways. The single-minded focus on deficit reduction through expenditure reduction by successive neoliberal governments at the Centre has meant a large rise in input costs. The removal of quantitative restrictions on agricultural imports and the maintenance of import tariffs at levels well below the bound rates by government has led to a huge increase in agricultural imports and consequent fall in domestic prices of agricultural outputs, especially during the period of global decline in prices of agricultural commodities from the late 1990s to the early part of the present decade. Thirdly, financial liberalization served to both limit access to institutional credit for the peasantry and other small producers as well as raise the cost of credit through higher interest rates in the formal sector as well as through forcing increased reliance on high cost informal sector credit. Fourthly, the deflationary macroeconomic policies led to a significant decline of purchasing power as well as a collapse of rural infrastructure, thus impacting both supply and demand conditions in the rural economy negatively. These had severely negative implications not only in agriculture but also in such areas as education and health. Fifth, the collapse of the public distribution system (PDS) in most parts of the country thanks to the resort to targeting worsened the rural economic crisis and increased the extent and depth of rural deprivation. The disastrous implications of these policies for the well being of India's working people have been highlighted by scholars and activists.<sup>2</sup>
4. It is thus a greatly weakened and crisis-ridden rural economy that now faces the onslaught of the global economic crisis. Every single measure of rural well being-whether of nutrition or of earnings from work or of assetlessness-testifies to the critical situation facing a large part of the rural population. The precise impact of the global economic crisis on the rural economy will become evident in the coming months. It will of course not be independent of what policy

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<sup>2</sup> See, in particular, Utsa Patnaik (2007), *The Republic of Hunger and Other Essays*; C.P.Chandrasekhar and Jayati Ghosh( 2005), *The Market that failed*; and the numerous articles on the website [www.macrosan.com](http://www.macrosan.com)

measures are taken by government to deal with the crisis. So far, however, the government has shown little willingness to undertake the kind of massive programmes of investment in rural infrastructure and productive job creation that is critical to mitigating the impact of the crisis on the rural population. In fact, the government has proceeded in the direction of greater liberalization and opening up to foreign private capital, especially in the financial sector. The two fiscal stimulus packages announced by the government amount to very little in real terms and are grossly inadequate, accounting for less than 1 % of GDP.<sup>3</sup>

5. That the global crisis will pose serious threats to the livelihood options facing the rural working people is clear. While government and media attention has been focused on the financial sector and on providing relief to the corporate sector, there has been little discussion of issues such as employment, food security and the impact on small and medium producers. It is these areas that we need to focus on. Employment for rural working people is an area of serious concern. It is increasingly the case that rural workers are more foot loose than before, and there is considerable seasonal migration from rural to urban areas for short and medium term employment under a variety of arrangements. The slowing down of the economy as a result of the economic crisis is bound to impinge negatively on these employment opportunities in construction and in some service sector activities. Similarly, with export growth slowing down and maybe, even turning negative on account of the recession in the developed capitalist countries, employment in both rural and urban areas will be affected.<sup>4</sup> A significant part of India's exports consist of agricultural commodities and products of labour intensive sectors such as textiles, garments, leather products, artificial gems and jewellery and other handicrafts. The textile industry, the largest employer after agriculture, is already facing a serious situation on the export front. According to one report, 'The Confederation of Indian Textile Industries reports that the decline in exports has already resulted in 7 lakh workers losing jobs, and 5 lakh more would be retrenched by end of March 2009.'<sup>5</sup> The same report suggests that already 5 lakh jobs have been lost on account of the decline in export of handicrafts. Small and medium engineering exporters in Tamil Nadu have found their order books depleted, with the crisis in the US economy, and in particular, its automobile industry. The much-

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<sup>3</sup> This may be contrasted with the Chinese government's stimulus package of direct expenditure on agriculture and rural development of the order of around 9 % of GDP

<sup>4</sup> Exports in US dollar terms for each of the months September through December 2008 have been lower than for the corresponding month in 2007.

<sup>5</sup>Kannan Kasturi, <http://www.indiatogether.org/2008/dec/agr-agrhit.htm>

hailed Tiruppur garments and knitwear units are in serious trouble. In times of crisis, the small and medium enterprises not only find credit both expensive and difficult to access, but also face the problem that large enterprises to whom they supply their products do not pay them promptly. As far as agriculture is concerned, the problem of slowing down of exports will be compounded by an even greater deluge of cheap imports, given the absence of protection against imports by way of high tariffs or quantity restrictions. Without going into greater detail, it is safe to conclude that one key impact of the economic crisis on the rural economy will be a significant loss of employment opportunities.

6. It follows that a key thrust in terms of mitigating the effects of the crisis on rural working people must be the demand for creation of productive employment on a large scale. Fortunately, the efforts of the Left Parties and other popular movements to force the UPA government to deliver on the CMP resulted at least in a couple of useful Acts, the Tribal Forests Right Act (TFRA) and the National Rural Employment Guarantee Act (NREGA). The NREGA is especially important in the present context. Despite problems of implementation, rooted in the nature of the rural power structure as well as the neoliberal mindsets of policymakers and bureaucrats and the lack of awareness of working people of their rights under the Act, the NREGS has made a difference to the lives of the rural labouring population. The SGRY operating in 586 districts in 2005-06 generated 82 crore person days of employment. But the NREGS operating in 200 districts in 2006-07 generated 91 crore person days of employment. In the first nine months of 2007-08, this amounted to 86 crore person days spread over 330 districts. It has been officially claimed that 4.5 crore rural households will obtain some employment under NREGS in 2008-09.
7. As noted earlier, the NREGS is of course not without its problems of implementation. Some typical problems cited in an official review of NREGS for the two year 2006-2008 are:
  - Non-conformity to application process and delay in issue of Job Cards
  - Non-issue of dated receipts
  - Inadequate shelf of Projects, resulting in delay in starting works
  - Vital records not maintained: Job Cards, Muster Rolls, Measurement Books, GP records
  - Delays in measurement and payments

8. Of 265 complaints regarding NREGS received by the Ministry of Rural Development, 54 related to misuse or improper allocation of funds; 48 related to muster rolls, wage payment, compensation and unemployment allowance; 36 to registration and job cards; and 33 to work execution matters, such as quality of work, use of machinery and worksite facilities. Only 15 complaints related explicitly to corruption while 16 complaints related to 'irregularities' in general. This is of course only illustrative, and does not 'prove' that corruption is not a major issue in NREGS. The fact that, in some social audit exercises in Andhra Pradesh, persons who have swindled money from the scheme have come on stage to return the money and promise good behaviour thereafter, suggests that corruption and swindling are far from absent. But experiences across the country suggest that greater awareness among the people and greater systematic oversight by elected local bodies can help minimize misuse of the scheme and maximize benefits to the eligible population. It has also been reported from across the country that in sites where the NREGS has been effectively implemented, there has been a significant reduction in labour migration and an improvement in the livelihood of the poor. The programme has largely been self selecting, with landless and land poor households, SCs and STs participating to a greater extent than other categories.<sup>6</sup> While the Act mandates that at least one-third of NREGS beneficiaries should be women, the percentage of women workers to total has exceeded this by a large margin in states like Tamil Nadu. In some parts of the country, women working in NREGS have been able to obtain the same wages as men possibly for the first time in rural India. Some basic data on NREGS provided by the Report on NREGA for 2006-2008 of the Ministry of Rural Development of the government of India is pasted below:

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<sup>6</sup> A survey of NREGA implementation carried out in May-June 2008 in 10 districts spread over six North Indian States found that 81 % of sample workers lived in kutcha houses, 73 % belonged to either SC or ST families, 72% had no electricity at home and 61 % were illiterate. See Frontline, January 16, 2009, cover story.

	2006-07 (Upto March)	2007-08 (Upto December)
Employment Demanded	2.12 Crores Households	2.61 Crores Households
Employment Provided	2.10 Crores Households	2.57 Crores Households
Persondays Generated	90.5 Crores	85.51 Crores
SC	22.95 [25.35%]	23.29 [27.23%]
ST	32.98 [36.44%]	26.56 [31.06%]
Women	36.79 [40.65%]	37.72 [44.11%]
Others	34.56 [38.18%]	35.67 [41.71%]
Works Taken Up	8.35 Lakhs	12.31 Lakhs
Use of Financial Resources	Rs. 8823.35 Crores (73% of Available Funds)	Rs. 9105.74 Crores (60% of Available Funds)

Source: [www.nrega.nic.in](http://www.nrega.nic.in)

9. The following observations of the newspaper *The Hindu* (January 23, 2008) are not far off the mark:

As successive social audits of the NREGA have revealed, there are standout success stories. In Rajasthan, where public awareness of the programme is high, 77 days of employment per rural household were provided in 2006-2007. In Tamil Nadu, the participation of women was as high as 81 per cent. In both States, social audits in different districts have shown that embezzlement of funds, irregularities in the muster rolls, and other types of corruption have declined substantially. In Uttar Pradesh and Jharkhand, the NREGA has created positive changes in the implementation of public works programmes. A recent delegation of the Central Employment Guarantee Council to Sonebhadra district in U.P. found a number of major improvements since the days of the National Food For Work Programme: the scale of employment has increased, minimum wages are being paid, delays in wage payments have been sharply reduced, and the exploitative practices of private contractors are a thing of the past. In some States, notably Orissa, corruption is very much in evidence but this only reinforces the urgent need to implement the transparency safeguards. There are also programmatic concerns such as the absence of worksite facilities for women with children and the need for a fair revision of the schedule of rates. These issues need to be addressed swiftly. None of them must be allowed to deter the wholehearted implementation of an Act that has become a lifeline for millions of Indians who have been left out in the cold by high economic growth.

Similar assessments have been made of the NREGS by several other observers and activists. Dreze and Khera note that, where employment under NREGA is provided, “wages are rising, migration is slowing down, productive assets are being created and the power equations are changing too.”<sup>7</sup>

10. NREGS implementation varies considerably across States and even across districts in a given State. While the usefulness of the scheme in terms of providing employment to the rural poor needs to be underlined, it must also be noted that there are several specific demands that should be put forward to ensure that the scheme is effective for the workers and the community. These include the following:

- Removal of the ceiling of 100 days of work per household per year and its replacement by a provision that every adult will be entitled to 150 days of employment annually.
- Ensuring that the scheme is implemented by the gram panchayats (panchayat wards in the case of Kerala) and contractors are kept out
- Ensuring that at least one-third of NREGS workers in any site are women
- Provision of crèches at work sites
- Ensuring that work norms are so fixed as to provide at least the legal minimum daily wage to workers and that this is the same for women and men
- Since minimum wages were in most instances fixed before the NREGS was made universal, ensuring its revision, especially in the light of the inflation in essential articles of consumption that has taken place since the NREGS came into being in February 2006.
- Ensuring that the works taken up under NREGS in any site are decided by the gram sabha concerned in tune with local needs and priorities

11. While a suitably improved NREGS would be one important instrument to counter the negative impacts of the economic crisis and neoliberal policies on rural labour, the issue of unemployment as such is of course a much larger issue. Unemployment is being constantly reproduced by the logic of capitalist growth, and in the case of rural India, it is also rooted in the high degree of

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<sup>7</sup> **Frontline**, January 16, 2009

concentration of land ownership in most parts of the country and the associated pre-capitalist relations. In a strategic perspective, the emphasis would have to be on comprehensive land reforms. While this cannot be an immediate slogan for action, one can nonetheless put forward the demand for distribution of lands with the State to the landless, for homestead land in rural areas and house sites in urban areas so as to ensure that no one is homeless and for implementation of existing land ceiling legislations. Homestead land can help poor households meet a small part of their food needs. The struggle against handing over large tracts of land to the corporate sector in the name of SEZ also becomes relevant here.

12. The impact of the crisis as well as neoliberal policies are especially of concern to scheduled tribe and scheduled caste households as well as to women. In terms of access to assets, skill and educational levels and exposure to government schemes and other opportunities, these segments of the population can be regarded as more vulnerable than the rest. They are also far more dependent on wage paid employment. Thus, for instance, according to the 61<sup>st</sup> round of the NSS, 749 out of 1000 SC households in rural India were either landless or owned less than 1 acre of land. The corresponding figures for OBCs and others were 560 and 525 respectively. Landlessness in the sense of land possessed is somewhat lower for STs in rural India at 464 households per 1000, but the quality of lands with STs is invariably much poorer. Only 47 out of 1000 rural SC households possessed land in excess of 5 acres as against 256 among OBCs and 213 among 'Others', with the figure for STs being 164. Of 1000 rural households in the category, the number of labour households was 559 for SCs, 453 for STs, 328 for OBCs and 233 for 'Others'. If one considers rural households per 1000 without any adult literate, the figures are 381 for STs, 327 for SCs, 257 for OBCs and 159 for 'Others'. The same for households without any adult female literate are, respectively, 619, 605, 514 and 341. Clearly, the axes of inequality in rural India run along class, caste and gender lines. Women face greater vulnerability than before as a result of neoliberal reforms. The number of female headed households per 1000 households in rural India as per the NSS went up from 97 in 1993-94 to 104 in 1999-2000 and further to 113 in 2004-05.

13. It is also interesting to note that SCs and STs access employment on public works in rural India to a greater extent than others. The figure per 1000 rural households where at least one male accessed employment on public works for at least 60 days in 2004-05 was 32 for STs, 21 for SCs, 12 for OBCs and 13 for 'Others'. The corresponding figures in respect of households where at least one

female member accessed such employment were 15, 11, 6 and 5 respectively. All of this suggests that we must focus in particular on SCs, STs and women in assessing the needs of rural labour.

14. The other key area of concern in the context of rural labour and the economic crisis is the issue of food security. Neoliberal reforms in general and the targeted PDS in particular have excluded a large proportion of the rural poor from access to PDS and greatly weakened food security. In terms of all three components of food and nutrition security-availability of food, access to food and absorption – the situation has worsened after the reforms. The rate of growth of food grain output has been abysmal. The slow growth of employment and the stagnation in real wages and earnings have greatly limited purchasing power and therefore the access to food for a sizeable segment of the population, especially in rural areas. This has been compounded by the sharp increases in PDS grain prices, first between 1991 and 1994 and then more drastically since 1997 when TPDS was brought in, and especially disastrously after the decisions taken by the NDA government in 2000 to charge full economic cost for APL category and half the economic cost for the BPL category. These quixotic policies, driven by the neoliberal obsession with minimizing fiscal deficit (solely through expenditure reduction as opposed to resource mobilization from the well-to-do), led to a great weakening of the PDS as so-called APL households abandoned the PDS for open market purchase of grain between 2000 and 2004 when the difference between open market price and TPDS price became very small, both being much higher than earlier PDS prices. Even for the BPL households, the PDS price was much higher post 2000 than it had been earlier. As APL households left the PDS and as the BPL households found it difficult to buy even their now reduced allocation, the fair price shops became increasingly unviable across the country. The central government's determined fudging and undercounting of the number of BPL households worsened matters. The turn over was much lower now and the margins in any case were low. Kerala saw cases of fair price shop owners committing suicide. Post 2004, the UPA government proved that it was not very different from the NDA. While it largely continued the NDA policy of keeping procurement prices nearly stagnant in a time of rising input costs in agriculture, the UPA government also allowed large private grain dealers to corner the wheat output at prices marginally higher than what the government offered, and ended up importing wheat on government account later at double the cost.<sup>8</sup> The situation was greatly worsened by the refusal of the UPA

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<sup>8</sup> This of course was not very different from the NDA's action of selling foodgrain at BPL prices to traders for export in 2002-2003 while India was reeling under drought, and the grain could have been put to good use in a

government to implement its CMP promises on universalizing PDS, and the sharp rise in food prices that took place in 2007-08 across the world and in India. Though primary commodity prices are declining globally, there has been little respite for Indian consumers. The official claims of low inflation lack credibility when it comes to food and other primary articles.

15. The extent to which changes from the universal PDS have excluded the poor and the vulnerable from access to food grains at affordable prices has been brought out by many scholars. As M.Swaminathan points out, ‘Three key objectives of economic reforms – and these are stated explicitly in many policy documents including different Economic Surveys -- have been to reduce food subsidies, to leave distribution to the market and to target food policies and subsidy to the “poorest of the poor”.’<sup>9</sup> Swaminathan demonstrates, using data from the NSS report on PDS utilization based on data from the 61<sup>st</sup> round, that in most States, 60 % or more of rural households either did not possess a ration card or possessed only an APL card, implying that they had to pay much higher prices than they could afford. Moreover, ‘There were only four States (Tamil Nadu excluded) in which two-thirds or more of agricultural labour households were effectively included and 33 per cent or less were effectively excluded from the PDS. These States were Andhra Pradesh, Karnataka, Jammu and Kashmir and Tripura.’ While the percentage of such exclusion was 52 % for India as a whole, it was as high as 73 % in UP and 70 % in Bihar. Likewise, SC and ST households and landless and land-poor households are excluded in substantial proportions from the PDS. In the coming period, threats to food security will be even greater as the government grapples with the economic crisis and seeks to cut subsidies in an effort to limit fiscal deficits which will soar with declining tax revenues as corporate profits dip in the recession. Already, as early as December 2007, the prime minister had talked to captains of industry of the need to reduce food and fertilizer subsidies. It is important that we foreground the question of food security in the interests of rural labour, petty commodity producers such as artisans and the small and middle peasantry.

16. The following demands could constitute a starting point:

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nation-wide, massive food-for-work programme that would have both built real assets in rural India and provided livelihoods to the rural poor. Ironically, the NDA policies led to an increase and not decrease in food subsidies-the ostensible aim of the policies-and to great misery and starvation deaths in 2002-03.

<sup>9</sup> M.Swaminathan (2008), ‘Impact of Liberalisation on Food Security’, 23<sup>rd</sup> A. K..Gopalan Memorial Lecture

1. In order to enhance food grain availability, recognizing that the majority of agricultural holdings in India are small in extent, the focus must be on enhancing production and viability of smallholdings. For this purpose, we need to step up public investment in irrigation and rural infrastructure and provide other forms of State support including credit, post-harvest storage facilities such as rural warehouses and processing. Such public investment may also address the issue of regional inequalities. With respect to irrigation, there should be a special focus on revitalisation of existing local water storage systems and water bodies and on decentralised community controlled systems of water use.
2. Government must expand the minimum support price (MSP) system, based on the cost of production including reasonable rate of return on investment and ensuring prompt and open-ended purchase for all major crops.
3. Following up on the National Rural Employment Guarantee Act (NREGA) and recognising that the right to food and the right to livelihood are intimately related, we need to move towards a comprehensive “Food and Employment Guarantee Act”.
4. The TPDS must be replaced by a universal PDS with uniform prices affordable to the poor. The centralisation that took place under the TPDS should be reversed and State governments should, in the first instance, have the right to determine the required allocation under PDS for their State.
5. The allocation per household in the PDS should be based on the number of consumption units in the household. Besides rice or wheat, other relevant and nutritious food grains and pulses may be distributed through PDS at subsidized rates, in order to enhance nutritional outcomes. Further, in order to improve viability of fair price shops, commodities like edible oil, cloth and other daily use items may be sold. Ration shops should be strengthened and made viable through the provision of appropriate margins or subsidies. To ensure effective utilisation of the PDS, the

public must be free to draw their allocations on a weekly basis. *Migrants should be able to access PDS allocations in the area where they work.*

6. Panchayati Raj Institutions (PRIs) must be actively involved in the monitoring of the PDS. PRIs should be empowered, trained and facilitated in monitoring hunger, malnutrition as well as schemes implemented to reduce hunger/malnutrition such as PDS, MDMS and ICDS.
7. The economic policies should be reoriented to provide adequate support for India's agriculture and its vast rural population. In particular, policies must provide adequate rural infrastructure, including power, and promote employment, besides ensuring credit facilities and remunerative prices for produce for our farmers. Distribution of ceiling surplus land must be done on a priority basis. Appropriate attention should be paid to conservation of common property and biodiversity resources and rehabilitation of wastelands. There should be substantial increase in public investment in agriculture-related infrastructure such as irrigation and drainage, land development, water conservation, development of road connectivity etc. Such investments are specially needed in the poorer and low rainfall areas of the country.
8. Substantial investments need to be made in health and education especially for the rural population. This, along with reversal of macroeconomic policies so as to enhance aggregate demand, will enhance the prospects of the growth of rural employment. Quality employment has to be promoted. This requires enhancing the skill levels of the labour force on a large-scale through massive training and capacity building programmes.

17. Migration is an issue that is very important and is likely to become more so in the coming period. I have not touched upon it except in passing. This is essentially because I have not been able to access much authentic information on migration. Available data suggest- as do anecdotal accounts- a great deal of seasonal and footloose migration, largely of a distress variety. The implications of the crisis for our hapless migrants from states like Bihar, UP and Jharkhand when they go to states like Maharashtra seeking a livelihood or the conditions of existence of migrant agricultural labour in Punjab or Haryana

or of the Bihari migrant workers employed increasingly in construction and road building work across the country is indeed chilling if recent events in states like Maharashtra and Assam are anything to go by. This issue needs to be urgently addressed and concrete demands pertaining to the rights and entitlements of migrant labour on the basis of concrete studies in different parts of the country put on the political agenda.