

CSB IAS ACADEMY

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MAINS IMPACT– 2025 – 05/11/2024

STAGNANT RURAL WAGES

SYLLABUS:

GS 3 > Economic Development > Indian Economy and issues

REFERENCE NEWS:

- India's rural wages have shown limited growth in real terms, contrasting sharply with robust GDP figures.

MORE ON NEWS:

- **GDP Growth (2019-2024):** Indian GDP grew at an average annual rate of 4.6%, with a sharper increase to **7.8% in the last three years**.
- **Agriculture Sector Growth:** Agriculture grew at 4.2% annually from 2019-20 to 2023-24 and at 3.6% in recent years, yet these gains aren't mirrored in rural wage growth (source: Labour Bureau).
- Data from the Labour Bureau on rural wage rates across 25 occupations in 600 sample villages shows stagnant or negative wage growth in real terms.
 - **Average Nominal Wage Growth (2019-2024):** Rural wages grew nominally at 5.2% per year, and agricultural wages at 5.8%.
 - **Average Real Wage Growth (2019-2024):** Adjusted for inflation, rural wages **declined by an average of 0.4% per year**, while agricultural wages rose by just 0.2%.
 - **Current Fiscal Year Growth (April-August 2024):**
 - Rural wages increased by 5.4% nominally and **0.5% in real terms**.
 - Agricultural wages grew by 5.7% nominally and 0.7% in real terms (source: Labour Bureau).

FACTORS BEHIND STAGNANT RURAL WAGES IN INDIA:

- **Increased Labour Force Participation Among Rural Women:**
 - The **Labour Force Participation Rate (LFPR) for rural women** rose significantly, from 26.4% in 2018-19 to **47.6% in 2023-24**. (Source: Periodic Labour Force Survey, 2023-24)
 - As per the Economic Survey 2023-24, this increase, partly attributed to initiatives like the Ujjwala and Swachh Bharat schemes, has expanded the rural

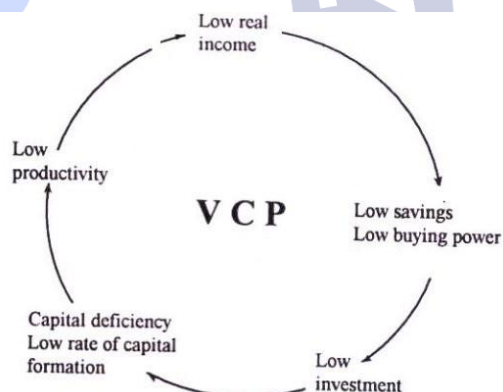
labour supply, exerting downward pressure on wages as more individuals enter the workforce.

- **Capital-Intensive Economic Growth:**
 - As per **the Economic Survey 2023-24**, India's recent economic expansion has increasingly relied on capital-intensive industries, which require **less labor per unit of output**. This shift has reduced demand for labor, particularly in rural areas, limiting wage growth.
- **Decline in Agricultural Productivity:**
 - Agriculture continues to be the largest employer in rural India, accounting for approximately **45.6% of the rural workforce** as of the latest Periodic Labour Force Survey (PLFS) 2022-23.
 - However, **erratic monsoons, soil degradation, and limited access to modern farming techniques** have stunted productivity growth, restricting farmers' ability to raise wages.
- **Insufficient Non-Farm Employment Opportunities:**
 - The **lack of non-agricultural employment options** forces many rural workers into low-paying agricultural jobs, creating an **oversupply of labor** in the agricultural sector and keeping wages low.
- **Inadequate Implementation of Rural Employment Schemes:**
 - While programs like the Mahatma Gandhi National Rural Employment Guarantee Scheme aim to provide rural employment, issues such as **delayed payments, underfunding, and administrative inefficiencies** have reduced their impact on rural wage growth. (Source: Ministry of Rural Development; MGNREGA Annual Report 2023-24)
- **Inflation Outpacing Wage Growth:**
 - Rural inflation has frequently exceeded wage growth, **reducing the purchasing power of rural workers**.
 - For instance, between November 2023 and February 2024, rural inflation ranged between **7.1% and 7.5%**, leading to **real wage contraction** in 25 of the 27 months up to February 2024 (Source: Reserve Bank of India (RBI) Inflation Reports.)
- **Structural Issues in Rural Labor Markets:**
 - Structural challenges, including high levels of informal employment, limited collective bargaining, and inadequate access to education and skills development, have constrained wage growth and job security in rural areas.

IMPLICATIONS AND CHALLENGES OF STAGNANT RURAL WAGES IN INDIA:

- **Impeded Poverty Reduction:**
 - Stagnant wages hinder efforts to reduce poverty in rural areas, where a significant portion of the population depends on agriculture and related activities.

- According to a **NITI Aayog report** titled 'National Multidimensional Poverty Index (MPI): A Progress Review 2023, **19.28% of the rural population in India remains multidimensionally poor**, compared to **5.27% in urban areas**. Without wage growth, these individuals struggle to improve their living standards.
- **Suppressed Rural Consumption:**
 - Limited wage growth constrains the purchasing power of rural households, leading to reduced demand for goods and services.
- **Increased Migration to Urban Areas:**
 - Inadequate rural wages drive migration to cities in search of better opportunities.
 - For instance, the **National Sample Survey Office (NSSO) data from 2021-22** shows a **12% increase in rural-to-urban migration** over the past decade, contributing to urban overcrowding and pressure on urban infrastructure.
- **Vicious Cycle of Poverty:**
 - Stagnant rural wages **trap communities in a Vicious Cycle of Poverty**, where low income limits savings and investment, leading to low productivity and capital deficiency, which in turn reinforces poverty and wage stagnation. Breaking this cycle requires boosting income and investment to enable sustainable growth.
- **Heightened Income Inequality:**
 - ★ ○ Persistent wage stagnation exacerbates income inequality between rural and urban populations.
- **Adverse Health and Education Outcomes:**
 - Limited income restricts access to quality healthcare and education. The National Family Health Survey (NFHS-5) (2019-21) reveals that rural areas have **higher malnutrition rates and lower literacy levels** compared to urban counterparts, **perpetuating cycles of poverty**.
- **Threat to Food Security:**
 - Stagnant rural wages undermine food security by affecting both the affordability of food and the sustainability of agricultural production.
 - **Affordability of Food:** With limited wage growth, rural households face challenges in accessing sufficient and nutritious food, leading to higher rates of malnutrition. The National Family Health Survey (NFHS-5) (2019-21) reported that **rural India has a malnutrition rate of over 35%**, partly due to constrained income levels.



- **Sustainability of Agriculture:** Low wages discourage investment in agricultural inputs like quality seeds, fertilizers, and technology, which impacts crop yields. According to the Food and Agriculture Organization (FAO), **stagnation in rural income can lead to a reduction in food production and increased dependency on imports**, ultimately posing risks to national food security.
- **Increased Vulnerability to Price Shocks:**
 - Stagnant wages make rural populations more vulnerable to food price inflation, limiting their ability to buy essentials during price hikes.
 - For instance, the **Reserve Bank of India (RBI) noted that food inflation disproportionately affects rural areas**, where income growth hasn't kept pace with rising costs.

GOVERNMENT INITIATIVES:

- **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):** Provides up to 100 days of guaranteed wage employment per year to rural households, ensuring a minimum income and reducing underemployment in rural regions.
- **Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM):** Aims to alleviate rural poverty by promoting self-employment and skill development among the rural poor, thereby enhancing income through diversified livelihood opportunities.
- **Pradhan Mantri Kaushal Vikas Yojana (PMKVY):** Offers skill development training to rural youth, improving their employability and potential to earn higher wages.
- **Aatmanirbhar Bharat Rozgar Yojana (ABRY):** Launched to incentivize employers for creating new employment opportunities during the COVID-19 recovery phase, including re-employment of individuals who lost their jobs due to the pandemic.
- **National Career Service (NCS) Project:** A one-stop solution providing a wide array of employment and career-related services to Indian citizens, including job matching, career counseling, vocational guidance, and information on skill development courses.
- **Rural Infrastructure Development Fund (RIDF):** Focuses on creating rural infrastructure (e.g., roads, irrigation) which indirectly boosts demand for rural labor and improves wage rates through increased employment opportunities.
- **Pradhan Mantri Fasal Bima Yojana (PMFBY):** Provides crop insurance to protect farmers against income loss due to crop failure.

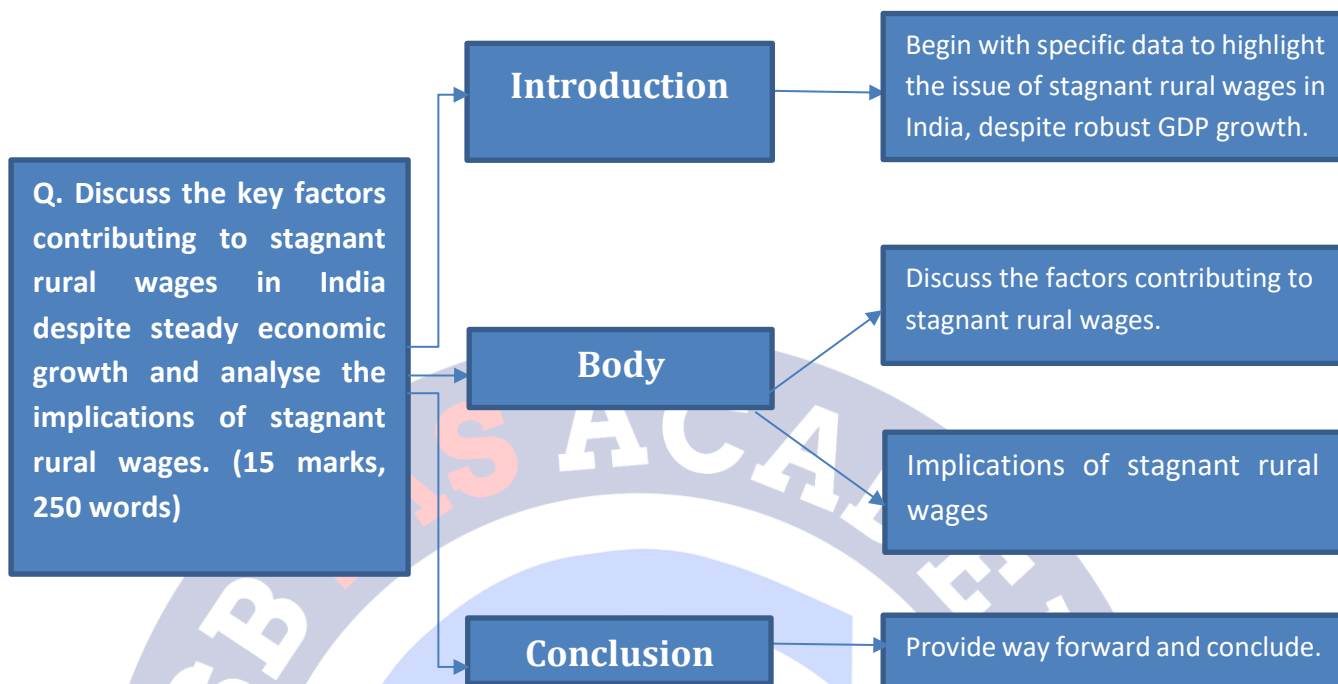
WAY FORWARD:

- **Enhancing Non-Farm Employment Opportunities:** Diversifying rural employment through the promotion of agro-based industries, rural tourism, and small-scale manufacturing can reduce the over-reliance on agriculture. This can create more stable job opportunities and improve rural wage levels.

- **Strengthening Skill Development Programs:** Expanding and tailoring skill development initiatives like PMKVY to meet the specific needs of rural economies will improve employability and allow rural workers to access higher-paying jobs, both locally and in urban areas.
- **Increasing Investment in Rural Infrastructure:** Programs like the Rural Infrastructure Development Fund (RIDF) should be scaled up to develop critical infrastructure, such as roads, electricity, and internet connectivity. This will enhance productivity and encourage private investment in rural areas, which can lead to better wage growth.
- **Implementing Minimum Wage Reforms:** Regularly revising and enforcing minimum wages in rural sectors can ensure fair compensation for workers. Strengthening wage laws and enforcement mechanisms will also help in protecting rural laborers from exploitation.
- **Promoting Agricultural Modernization:** Increasing access to modern farming techniques, quality seeds, and irrigation facilities can boost agricultural productivity. Enhanced productivity can help farmers generate higher incomes, allowing them to pay better wages to laborers.
- **Improving Access to Credit:** Expanding access to affordable credit for rural businesses and farmers through government schemes like Kisan Credit Card can enable rural entrepreneurs and farmers to invest in productivity-enhancing assets, indirectly contributing to wage growth.
- **Better Implementation of Social Security Schemes:** Ensuring timely and effective implementation of social security programs like MGNREGA and PM-KISAN can provide a safety net for rural households, improving their financial stability and reducing wage volatility.
- **Encouraging Private Sector Involvement:** Creating incentives for private sector companies to set up operations in rural areas can stimulate job creation and wage growth. Policies encouraging rural entrepreneurship and public-private partnerships in rural development can attract more investments.
- **Enhancing Rural Education and Healthcare Access:** Improving access to quality education and healthcare can lead to better human capital development. Healthier and more educated rural populations can contribute to higher productivity and wage levels over time.
- **Addressing Rural Inflation through Subsidies and Price Controls:** To prevent rural wages from being eroded by inflation, targeted subsidies on essential items (such as food and fuel) and price control mechanisms can help stabilize the purchasing power of rural households, making wage gains more meaningful.

PRACTICE QUESTION:

Q. Discuss the key factors contributing to stagnant rural wages in India despite steady economic growth and analyse the implications of stagnant rural wages. (15 marks, 250 words)

APPROACH:MODEL ANSWER:

Despite India's robust GDP growth, rural wages have shown limited real-term growth, highlighting a disconnect between national economic progress and rural income levels. **From 2019 to 2024, India's GDP grew at an annual average of 4.6%, with a sharper rise to 7.8% in the last three years.** However, rural wages have lagged, growing nominally at 5.2% per year and agricultural wages at 5.8%, while inflation-adjusted **real wage growth shows a decline of 0.4% annually, with agricultural wages rising by only 0.2%** (Source: Labour Bureau). This stagnation reveals a pressing issue within the rural economy.

Factors Contributing to Stagnant Rural Wages:

- 1. Increased Labour Force Participation Among Rural Women:** The Labour Force Participation Rate (LFPR) for rural women rose from 26.4% in 2018-19 to 47.6% in 2023-24, partly driven by initiatives like the Ujjwala and Swachh Bharat schemes. This increase in labor supply exerts downward pressure on wages as more individuals enter the workforce (Periodic Labour Force Survey, 2023-24).
- 2. Capital-Intensive Economic Growth:** India's economic expansion has shifted toward capital-intensive industries that require less labor, especially in rural areas, reducing labor demand and wage growth opportunities (Economic Survey 2023-24).
- 3. Decline in Agricultural Productivity:** Agriculture, the primary employer in rural India (45.6% of the rural workforce as per PLFS 2022-23), faces challenges such as erratic

monsoons and limited access to modern techniques, leading to low productivity and restricted wage growth.

4. **Insufficient Non-Farm Employment Opportunities:** With limited non-agricultural employment options, rural workers are often confined to low-paying agricultural jobs, resulting in an oversupply of labor and stagnant wages.
5. **Inadequate Implementation of Rural Employment Schemes:** Programs like MGNREGA aim to provide wage employment in rural areas, yet challenges like delayed payments and underfunding have hindered their potential to support wage growth (MGNREGA Annual Report 2023-24).
6. **Inflation Outpacing Wage Growth:** Persistent rural inflation, ranging from 7.1% to 7.5% between November 2023 and February 2024, has eroded purchasing power, leading to real wage contraction in 25 of 27 recent months (RBI Inflation Reports).

Implications of Stagnant Rural Wages

1. **Impeded Poverty Reduction:** Low wages hinder poverty alleviation, with 19.28% of the rural population remaining multidimensionally poor compared to 5.27% in urban areas (National MPI Review 2023).
2. **Suppressed Rural Consumption:** Limited wage growth reduces purchasing power, lowering demand for goods and services and slowing economic growth.
3. **Increased Migration to Urban Areas;** Low rural wages drive migration to cities, adding pressure to urban infrastructure (NSSO 2021-22).
4. **Vicious Cycle of Poverty:** Low wages create a cycle of poverty, limiting savings, investment, and productivity, which in turn reinforces wage stagnation.
5. **Heightened Income Inequality:** Persistent wage stagnation exacerbates income inequality between rural and urban areas, contributing to social disparities.
6. **Adverse Health and Education Outcomes:** Limited income affects access to healthcare and education, leading to higher malnutrition rates and lower literacy in rural areas (NFHS-5, 2019-21).

Government Initiatives to Address Stagnant Rural Wages:

- Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
- Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM)
- Pradhan Mantri Kaushal Vikas Yojana (PMKVY)
- Aatmanirbhar Bharat Rozgar Yojana (ABRY)

Way Forward

- **Enhance Non-Farm Employment Opportunities** to reduce reliance on agriculture.
- **Strengthen Skill Development Programs** to improve employability in higher-wage jobs.
- **Increase Investment in Rural Infrastructure** to boost productivity and attract private investment.
- **Implement Minimum Wage Reforms** to ensure fair compensation.
- **Modernize Agricultural Practices** with access to quality seeds and irrigation for higher productivity.
- **Expand Access to Credit** through schemes like the Kisan Credit Card for investment in productivity.

Addressing stagnant rural wages requires a comprehensive approach that fosters non-farm employment, skill development, and infrastructure investment. Moving forward, aligning rural income growth with national economic progress is essential for poverty reduction and social stability. By focusing on equitable wage distribution and sustainable job opportunities, India can create a balanced path toward inclusive development and improved rural livelihoods.

