Rural Push in Budget 2016–17
Rhetoric versus Reality

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Budget 2016–17 recognises that the rural economy is in crisis; however, it fails to address this with sufficient targeted rural spending. A perusal of budget documents reveals exaggerated expenditure claims, achieved through reclassification of budget heads. There has been an enduring neglect of agriculture, which is further exacerbated by this year's reduced subsidies for fertiliser and food. This will induce further vulnerabilities in the rural economy.

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The focus on agriculture and rural economy in Budget 2016–17 was not a surprise despite the fact that this government came with an agenda against pro-poor expenditures and subsidies. The bias of this government against rural spending was obvious from the statement by the Prime Minister in Parliament mocking the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) as a monumental failure of the previous government. This bias was also reflected in the government's delay in implementing the National Food Security Act (NFSA), due for implementation in July 2014.

It was obvious that the sudden volte-face by the government hailing the MGNREGA as a lifeline of the rural economy in February this year, and the push for reviving the rural economy were early signs of a government recognising the extent of crisis in the rural economy. It was also a recognition of the failure of government policies in the last two years in reviving the Indian economy. Despite the Central Statistics Office's (CSO) claims of a growth rate of more than 7% of the economy, fundamental indicators of the economy on manufacturing, investment and exports continue to raise doubts. But the biggest failures of the present government has been its inability to gauge the extent of the crisis in the rural economy.

Stress in the Rural Economy

While this is only the third time after independence that the rural economy is suffering due to back-to-back droughts, the stress in the rural economy was building up for quite some time. The decline in agricultural value added by 0.2% in 2014–15 over 2013–14 and the growth of 1.1% in agricultural value added in 2015–16 is only a partial reflection of the nature of crisis in the rural economy.

The collapse in international commodity prices, particularly of commercial crops such as basmati rice, cotton and rubber since August 2014 had already created a situation of low realisation of agricultural outputs without a consequent fall in input prices. The low demand in the international market was already evident in declining agricultural exports with agricultural exports declining in value terms by 4% in 2014–15 and further falling by 21% from April to November in 2015–16.

The third factor which added to the monsoon failure and falling commodity prices was the decline in rural spending by the government which had started reducing expenditure on various rural development programmes, notably, MGNREGA. The decline in rural construction activity which played a crucial role in keeping the rural demand afloat after the financial crisis of 2008 added to the crisis in the rural economy.

Some of these were evident even before this government took over but were ignored by the present government. The cutbacks in rural spending, notably on rural development programmes such as MGNREGA were initiated by the previous government. That the stress in the rural economy was building up was evident from the trend in growth rate of rural wages which started decelerating since November 2013 and are now declining in real prices. This is perhaps the first time in the last four decades that rural wages are declining in real prices. Other indicators of the rural economy such as tractor sales and motorcycle sales were showing negative growth since 2014–15 confirming the stress in rural economy. The extent of the distress was also showing up in increase in number of farmer suicides in many states.

Exaggerated Claims

The response of the finance minister in his Budget Speech bordered on hyperbole of doubling the farm income in seven years to exaggerated claims of expenditure commitments. However, the reality as reflected in budget documents confirmed the fear that the government has once again missed the opportunity to do something for the rural economy. The claims of increased spending not only involved reclassification of budget heads of different ministries to ministries of agriculture and rural development but also included expenditure provisions for pending payments of earlier years.

This was clear in the case of the claim of raising budgeted expenditure on Ministry of Agriculture to ₹35,984 crore in 2016–17 from revised expenditure of ₹15,810 crore in 2015–16 and actual expenditure of ₹19,255 crore in 2014–15; an increase of 127% over last year. While this increase was substantial for the Department of Agriculture and Cooperation (DAC), the overall increase of agricultural sector was a modest 94%, rising from ₹22,958 crore in 2015–16 (revised) to ₹44,485 crore in 2016–17 with budget for Department of Agricultural Research and Education (DARE) and Department of Animal Husbandry, Dairying and Fisheries (DAHDF) increasing only by ₹1,350 crore. However, even the increase of ₹20,000 crore in the budget of DAC was achieved by reclassifying the interest subsidy on short-term credit to farmers to the extent of ₹15,000 crore in the agriculture ministry's budget as against the earlier practice of this being reflected in the expenditure heads of the Ministry of Finance. The increase even on this count was a mere ₹2,000 crore from ₹13,000 crore in 2015–16 (revised) which appeared as a subhead under the finance ministry. Excluding this expenditure from the Ministry of Agriculture budget, the actual increase in budget expenditure on agriculture sector is a modest 27% compared to revised estimates of 2015–16. What is also worth noting is that the increase in the budgeted expenditure of 2016–17 for the department of agriculture and cooperation is only 9% higher than the actual expenditure of 2014–15, the first year of this government. In real terms, the expenditure of DAC is lower than inflation-adjusted expenditure of 2014–15.

The reality as reflected in budget numbers clearly fails to match the rhetoric of this being a budget for farmers, and is nowhere sufficient to realise any claims of doubling farmers' income by 2022. The nominal increase in 2016–17 over last year's revised estimates are against the backdrop of a severe cutback in spending on the agriculture sector in Budget 2015–16. This was evident from the reduction in budgeted expenditure on Rashtriya Krishi Vikas Yojana (RKVY) and National Food Security Mission (NFSM), both of which had contributed significantly to the revival of the agrarian sector after the slump during 1997–2004.

Similarly, expenditure on irrigation was nominally lower than the revised expenditure on irrigation schemes and has failed to compensate for the reduction in irrigation expenditure made last year in programmes such as the Accelerated Irrigation Benefit Scheme (AIBS) and Integrated Watershed Management Programme (IWMP). Some of these cutbacks were expected to be covered by increased spending by the state governments. Preliminary estimates based on state government budgets belie any such hopes.

Increasing Vulnerability

Bulk of the increase in this year's budget on agriculture has been in the Pradhan Mantri Fasal Bima Yojana, the budget for which has increased by ₹2,598 crore in the revamped crop insurance scheme. While this is consistent with the government's focus on insurance as the solution to problems in agriculture, this can hardly offer any solution to the long-standing issues that plague the agricultural sector.

Ignoring the twin shocks of weather and international price fluctuations, the agricultural sector continues to be vulnerable to issues of technological stagnation and degradation of the natural resource base. The growth of the agricultural sector during the last 10 years of the United Progressive Alliance (UPA) not only gave the resilience to the overall economy by maintaining rural demand despite the global slowdown, it was also instrumental in reducing vulnerability and poverty in rural areas. The neglect of agriculture in the last two years may not only erode any gains made in the last decade but may also induce further vulnerabilities in rural areas.

The increase in vulnerability in rural areas was already reflected in the rise in demand for MGNREGA work which saw increase in spending on the programme to ₹41,326 crore in 2015–16. This does not include the pending liability of ₹8,430 crore as wage payments. As against this, the total budgeted expenditure on MGNREGA in 2016–17 is only ₹38,500 crore, much less than the actual spending last year and substantially less than the total expenditure needed to meet the pending payments along with maintaining the expenditure levels seen in 2015–16. Not only is the claim of the finance minister that this is the highest allocation so far, not true, it is not even sufficient to maintain the expenditure of his own government last year.

The substantial decline during the period of rural distress is likely to increase the extent of unpaid wages and also encourage rationing by the state governments. While the total budgeted expenditure of the Ministry of Rural Development has increased by 10% compared to actual expenditure of last year, most of the increase is accounted for by the increase in MGNREGA and expenditure on housing. While the two biggest programmes of the ministry, Pradhan Mantri Gram Sadak Yojana (PMGSY) and the social pension schemes have not seen any increase in spending. These schemes were not only crucial in maintaining rural demand in the wake of falling rural incomes but were also essential safety nets during times of stress.

While these two ministries which are crucial for reviving rural demand and providing safety nets for the rural population during times of stress did not see significant increase in spending, these were accompanied by reduction in subsidy for fertiliser and food. The reduction in fertiliser subsidy was marginal, to the extent of ₹2,438 crore, but the lack of clear policy on fertilisers meant that open market fertiliser prices continued to remain high compared to the administered prices for urea. But even for the food subsidy, the delay in implementation of NFSA raises doubt on the intentions of the government. Not only was food subsidy cut by ₹5,000 crore in this year's budget, the flip-flops on procurement policies and cash transfers have created confusion on the ground. The failed attempt at direct benefits transfers and move towards cash transfers in some of the union territories has neither helped the government nor has it helped consumers receive due benefits from the expansion of NFSA.

While recent evidence has clearly established that in-kind transfers are not only better in terms of their impact on nutrition, the success of various states in reducing leakages in the public distribution system (PDS) was also an opportunity for the government to enhance the reach of the PDS and implement the NFSA. This was also the opportunity for the government to strengthen the minimum support price (MSP) for pulses and oilseeds along with improving the reach of the procurement machinery.

Revival of Rural Economy

The crisis in the rural economy not only requires direct spending on schemes of the ministry of rural development and the ministry of agriculture but also on the priorities and policies of the government on channelising the rural demand for further diversification of the rural economy into the non-farm sector. The rural economy after years of stagnation had started to witness a process of non-farm diversification, even though in low-productivity sectors such as construction, since 2004–05. This process was aided not only by an above-average growth of the agricultural sector and the favourable shift of terms of trade in favour of agriculture, but also due to increased spending by the government.

Given that the agricultural sector is suffering from the twin shocks of international price shocks and the monsoon failure, the revival of the rural economy depended crucially on government intervention in the form of increased spending, but also through creation of alternative employment opportunities elsewhere in the economy. Given that the manufacturing sector was already suffering from lack of demand, both domestically as well as internationally, the increase in spending in rural areas is not just important for reviving the rural economy but also for the economy as a whole.

At a time when the stress in the banking sector has further aggravated the declining private investment in the economy, prudent fiscal policy required using public investment and expenditure as the engine for reviving the economy. Some of this is evident from the stagnation in demand for credit as well as public investment in agriculture. The inability of private expenditure and investment to compensate for the stagnation will not only have an impact on the rural economy in the short-run but may also impact the growth of the rural economy in the long-run.

While the output of the agriculture sector may rebound on the low base of back-to-back monsoon failure, the real challenge is to revive the growth in incomes of the farmers in the medium- to long-run. While the budget is certainly not up to the mark for this challenging task, the lack of a clear vision raises doubts on the possibility of revival of the rural economy in the near future. The revival of the rural economy is not just a concern for the rural areas and the agricultural sector, but is also crucial for revival of the overall economy. The long-term evidence in this regard is not only consistent as far as the last 10 years of high growth during the UPA regime are concerned, but also for the last four decades when the economy has moved to a higher growth trajectory.