{ EAR TO THE GROUND }

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The rural economy needs a new deal

Our cereal-heavy production regime played saviour in the pandemic by ensuring food security. But the climate crisis-induced heatwave of March exposed the fragility of excessive reliance on cereals SHUTTERSTOCK

Covid-19, the Ukraine war, and the climate crisis show that policymaking for rural India must shift from a knee-jerk approach to one that invests in long-term risk management

Three catastrophic global events — the coronavirus pandemic, the Russia-Ukraine war, and the climate crisis — have made visible sources of precarious resilience and fragility in India's rural economy. Now, as India grapples with rising food inflation and slowing rural demand, policymakers must contend with the dilemmas posed by the rural economy's resilience and fragility to design a durable policy response, one that goes beyond ad hoc export bans.

Amid the pandemic-induced economic crisis, the rural economy was a site of resilience. In 2020-21, agriculture was the only sector of the economy that remained strong, growing at 3.3%. Crucially, it provided the country with its most resilient safety net. A slew of policy measures enhanced minimum support prices (MSPs) and procurement kept granaries well stocked and the expansion of the public distribution system (PDS) ensured basic food security. In 2021-22, the sale of rice and wheat via government schemes was as high as 105.6 million tonnes. Moreover, a good monsoon and two successive bumper harvests coincided with rising global prices after global lockdown restrictions began easing. Together, this created a perfect condition for robust agri-commodity exports. In 2021-22, farm exports crossed $51 billion.

Along with the provision of basic food grains, agriculture was also India's primary employer. The Centre for Monitoring Indian Economy records that between 2019 and 2022, agriculture added 11 million new jobs while the rest of the economy shed 15 million jobs. The government's Periodic Labour Force Survey (PLFS) shows that in 2019-20, agriculture added 32.72 million jobs over 2018-19. Agriculture, long considered the employer of last resort for policymakers, emerged as the only employer and primary safety net for millions of Indians amid the pandemic.

However, for most, India's agriculture offers subsistence employment rather than a robust substitute for non-farm income. Far from being insulated, the largely informal rural economy was devastated by Covid-19. Rural wages, particularly non-farm wages, declined sharply through the pandemic and are yet to recover. Declining incomes accelerated demand-destruction for proteins — milk, eggs, fruits, and vegetables — a trend that began before the pandemic with the economic slowdown. The sales of liquid milk by dairy cooperatives, for instance, declined by 2.6% in 2020-21 from the previous year; compare this with an annual growth of 5.9% in 2018-19.

The declining demand for proteins is a marked shift from the 2000s when rising incomes resulted in dietary diversification, creating opportunities for crop diversification. However, India's agricultural policy has incentivised the overproduction of cereals and sugarcane while discouraging diversification. Ironically, this perverse policy was a source of strength through the pandemic, ensuring food security amid deepening economic vulnerability. In 2021, as India emerged from the pandemic, global supply chain disruptions and climate shocks caused a steep rise in commodity prices. The Russia-Ukraine war exacerbated this.

But beyond headline numbers, the dynamics of food inflation need unpacking. Calculations by the Centre for Policy Research's Harish Damodaran and Samridhi Agarwal show that till March, inflation was driven mainly by edible oils (average inflation since April 2019-2022 is 15.8%) while cereal and sugar prices remained insulated from international price fluctuations. This was due to surplus cereal production, incentivised by policy, which, in turn, ensured food security even as incomes fell.

The climate crisis-induced heatwave of March exposed the fragility of excessive reliance on cereals. The heatwave resulted in a loss of crop yield, thus contributing to an increase in cereal inflation. This, combined with soaring global wheat prices, has resulted in a significant reduction in wheat procurement. As a result, official wheat procurement is likely to halve from last year's record of 43.3 million tonnes. Once again, the sources of resilience in rural India are also responsible for its fragility, and current inflation will put greater stress on the rural poor.

The pandemic, the war, and the climate shock have resulted in moments of crisis that expose the many contradictions in the policy approach to the rural economy. On the one hand, our cereal-heavy production regime played saviour in the pandemic by ensuring food security. But these characteristics left it fragile and vulnerable to climate shocks and war. Moreover, it exposed the real tension that policymaking must contend with — the need to balance increasing farm incomes with food security needs in a vulnerable economy, while simultaneously ensuring long-term environmental resilience. For the moment our policy response has failed in this balancing act choosing instead to impose export bans and restrictions — which will deprive farmers and traders of needed income gains and risks market destruction, in the name of food security while ignoring diversification needs.

The present conundrum is a reminder of the urgency for reframing the paradigm of policymaking away from a piecemeal, knee-jerk crisis management framework to one that invests in long-term risk management and balances tensions. A strong rural economy is the backbone of India's food and climate security, and it is the only path for crisis management in an increasingly vulnerable global economy.

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The views expressed are personal
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