

## **Income Decline before the Pandemic\***

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The pandemic and the lockdown are certainly causing an absolute shrinkage in the Gross Domestic Product of the Indian economy. But these tend to obscure something very serious that was happening even earlier, namely a real income decline for vast numbers of working people.

There are several pointers to this fact. The rate of chronic unemployment in 2018-19 was the highest ever in the last 45 years at 6 per cent compared to the usual 2 to 3 per cent. The per capita real consumption expenditure in rural India according to the 2017-18 National Sample Survey was 9 per cent lower than in 2011-12, the previous year of large sample survey. Such an absolute decline in the average consumption expenditure of so large a population is quite unprecedented. This finding was so disturbing that the Modi government decided to suppress the survey results altogether. Its claim that the finding was unreliable is quite absurd: there is no reason why the world's largest periodic sample survey which has been going on for decades, no matter what its limitations in general, should suddenly become unreliable for just one particular year. Clearly something serious has been going on in the Indian economy.

A confirmation of this fact comes from some recent developments in the food economy. Taking the entire neo-liberal period since 1991 into account, the growth of foodgrain output in the country has barely nosed ahead of the population growth: between 1991 and 2018, while population growth has been roughly 1.6 per cent per annum, the growth of food grains has been about 1.8 per cent per annum. And yet, curiously, we find two clear phenomena: first, the proportion of procurement by the Food Corporation of India in total output has increased greatly over the neo-liberal period as a whole, but has picked up momentum after the world capitalist crisis of 2008. The proportion of government procurement to the net production of food grains was 12.7 per cent in 1991; it went up to 29.6 per cent in 2017. The average ratio for the entire period 2001 to 2008 was 22.4 per cent; the average ratio for the period 2011 to 2017 was 28.5 per cent. Private trade channels, in other words, increasingly dominated by agri-business, are losing interest in getting involved in general foodgrains trade, especially foodgrains trade for the domestic market.

The second striking phenomenon is that the magnitude of government stock-holding as a proportion of foodgrain output has not only been systematically above what are considered the "norm" for operational and buffer stock, but has also been climbing up. The June stocks in the four years starting from 2017 were 55.7, 68.1, 74.3 and 83.5 million tonnes respectively. The stocks were growing at a much faster rate than net production, and in each case the June level was more than a quarter of the net production for that year. Never were stocks so high in the Indian economy: in the seventies the stocks were roughly 12 per cent of net production and even in the late nineties they were no more than about 15 per cent.

These two phenomena are interlinked. The accumulation of stocks with the government suggests a state of long-term "excess supply" relative to demand in the market which is what also makes foodgrain trade unattractive to private traders. Given the fact that large stocks have got to be carried because of insufficient demand, the

private traders would rather have the government carrying these stocks in a “buyers’ market” than they themselves; and this fact curtails their own procurement, which is reflected in the increase in the ratio of government procurement to net output.

The question therefore is: why has there been a tendency towards a persistent excess supply in the foodgrains market when the rate of growth of foodgrain production has barely exceeded the rate of growth of population. The fact that the Indian economy has been growing at a high rate in the neo-liberal period, which has been a matter of much self-congratulating among the votaries of neo-liberalism, should have meant a high growth rate of per capita demand for foodgrains as well. Note that the common argument that with rising incomes there is diversification of diets hence the demand for grains falls, is totally incorrect. Foodgrains net of seed, are used not only directly as food but also indirectly as feedgrains for producing animal products (like milk and poultry) and a part is processed, both for human consumption and for industrial use. With rising real incomes and diversification of diets, the per capita demand for foodgrains for all uses has been observed to rise, not fall, the world over, with especially sharp rise for feed use.

Since in India the increase grain output per capita has been measly, it should have caused a state of perennial excess demand for foodgrains. Why then do we have the exact opposite, so much so that India has even emerged as a regular exporter of foodgrains in the world market?

The reason is that even though the GDP growth rate has been quite high, the real income in the hands of the working people has not increased in per capita terms to any noticeable extent, and is likely even to have declined in the very recent period when the increase in foodgrain stocks with the government has been particularly sharp.

In fact there can be little doubt that the per capita absorption of foodgrains for the working people must have declined in the neo-liberal period, especially in recent years. Taking the entire period between 1990-91 and 2017-18, we find first a decline and then a rise in per capita foodgrain availability with no overall trend increase. Per capita availability per day for instance was 510 grammes in 1991, 442.8 grammes in 2007 and 494 grammes in 2018. Since during this period there has been a tremendous increase in inequality, the income growth of the richer sections of the population must have been even higher than the overall GDP growth. Their per capita consumption of foodgrains too, taking direct and indirect consumption together, must have increased quite significantly; it follows that the per capita consumption of the working people (assuming that consumption could not have exceeded availability) must have declined.

Now as long as the income elasticity of demand for foodgrains (taking direct and indirect demand together) is positive, i.e. an increase in real income is necessarily accompanied by increase in total foodgrain demand, a decline in per capita foodgrain absorption must be associated with a decline in per capita real income. It follows that there must have been a decline in the per capita real income of the working people between the eve of the introduction of neo-liberal policies and the eve of the pandemic, i.e. between the two end-points of the period.

This conclusion is also in conformity with nutrition data. Between 1993-4 and 2011-12, which were two NSS Large Sample Survey years, the proportion of the rural population below 2200 calories per person per day which is the benchmark for defining poverty in rural India, increased from 58 per cent to 68 per cent. Likewise, for urban India the proportion of the population not able to access 2100 calories per person per day which is the benchmark for defining urban poverty, increased from 57 per cent to 65 per cent.

The situation has worsened after 2011-12. The per capita net availability of foodgrains for the country as a whole was 463.8 grammes per day in 2012. For the subsequent years until 2018, it was, respectively, 491.9, 489.3, 465.1, 486.8, 488.7, and 494.1. Availability is not identical with consumption, as it excludes changes in private stocks; but the two can be assumed to move together. Then, since there is no trend in these figures, while there has clearly been an increase in the per capita consumption of the rich because of growing inequality, the per capita consumption of the working people must have declined. The Modi years, starting from 2014, have clearly seen a fall in per capita absorption of foodgrains by the working people, which is inexplicable except by the fact that their per capita real income must have fallen. All the other evidence we have, such as the recent growth in unemployment, and the decline in real consumption expenditure between 2011-12 and 2017-18 in rural India are consistent with this conclusion.

It is ironical, but scarcely surprising, that instead of putting purchasing power into the hands of the working people, the Modi government is planning to get rid of the “excess supply” of foodgrains by permitting their conversion into ethanol!

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