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INDIA NEWS

As Growth Slows in India, Rural Workers Have Fewer Incentives to Move to Cities

Few Manufacturing Jobs and High Inflation, Combined With Rural Programs, Stall India's Urbanization

By RAYMOND ZHONG and SAPTARISHI DUTTA

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Ram Singh returned to his rural village to farm after trying to make it for 14 years in Delhi. *Vivek Singh for The Wall Street Journal*

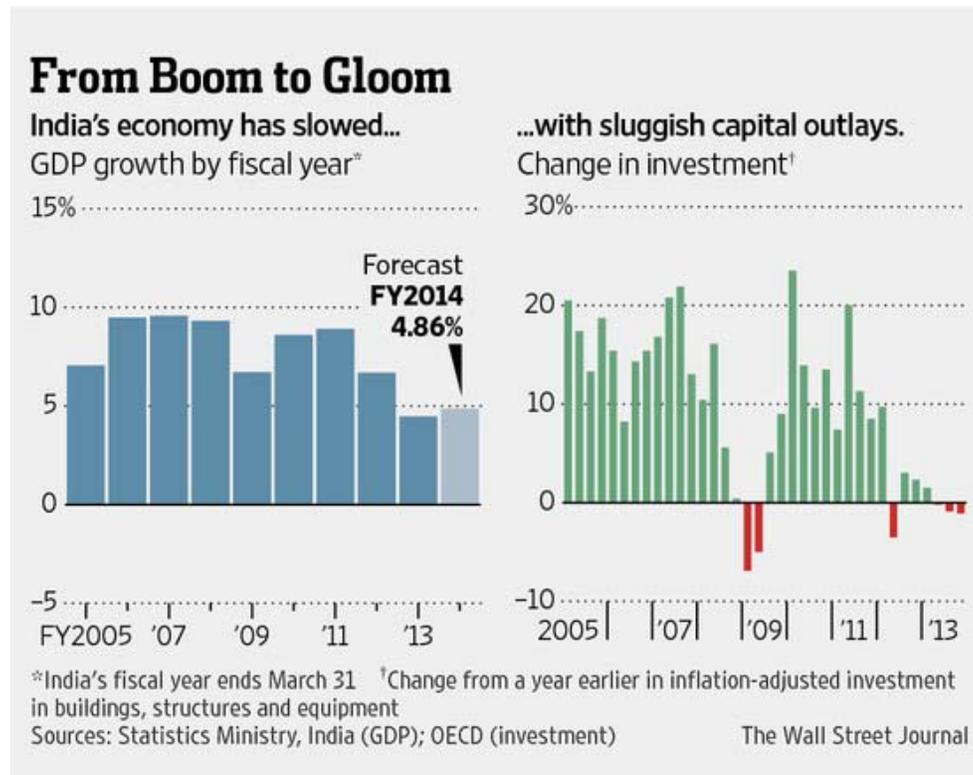
MORKAHI, India—As a teenager, Ram Singh left this remote rural village and moved to fast-growing New Delhi to chase the spoils of his country's economic boom.

For 14 years, he toiled in tiny, primitive factories making everything from auto parts to components for light switches. His wages barely kept pace with the cost of living and eventually he gave up on city life.

Today, he is back on the farm, scratching out a living from a small plot of land near his birthplace where he grows corn, wheat, potatoes and mustard.

"Whenever someone leaves his village for the city, he thinks, 'I will earn money,'" says Mr. Singh, who isn't certain of his age but says he is around 30 years old. "Everyone has dreams, but it's not always in their power to turn them into reality."

Just a few years after India was hailed as a rising economic titan poised to rival China—even surpass it—growth in gross domestic product has slowed to a pace not seen in a decade. The [Indian economy expanded at an annual rate of 4.7% in the last quarter of 2013](#). That may be sizzling by Western standards, but it is a serious comedown for a country whose GDP growth peaked at 11.4% in 2010. Inflation is high, workers aren't finding jobs, and industrialization and urbanization are stalling.



For many in India whose expectations of a better life rose along with the economy in the first decade of the 2000s, the current slowdown has brought a near-literal reversal of fortune, driving them back to jobs and ways of living they thought they had left behind.

Between 2005 and 2012, as India's industrial and service sectors boomed, farm employment shrank by 37 million jobs. Economists at the Mumbai-based credit-rating firm Crisil now expect that process to go backwards: [By 2019, 12 million more people will be working in agriculture than in 2012](#).

"Because there won't be enough job opportunities outside of agriculture, both in rural areas and in cities, people will remain stuck," says Dharmakirti Joshi, Crisil's chief economist. "Agriculture's share of GDP is shrinking, but more and more people will be lashed to it."

That's not the way India's policy makers want the next chapter of the country's economic story to go. Voting in parliamentary elections kicked off last week amid deep discontent about joblessness and missing opportunities for young people.

The government's latest five-year plan for the economy, which covers 2012-2017, says the share of Indian workers on farms is "still too large," and places great emphasis on helping the economy create jobs outside of agriculture.

Failure to do so would carry enormous economic and political risks as India's working-age population continues to swell. India needs to produce enough decent jobs for the 90 million people who will enter the workforce over the next 15 years.

But a potential labor-driven economic boost could become a curse, economists say, if young people are trapped in relatively unproductive jobs in agriculture or menial service work.

"India is on the cusp of either being able to take advantage of the demographic boom or being swallowed up by it," says Eswar Prasad, an economist at Cornell University.

Mr. Singh's home state, Bihar, is ground zero for population growth in India. It has 104 million people and the highest birthrate in the country. When he left in 1998, he says, Mr. Singh's parents tried to stop him and urged him to stay in school. But the allure of the city was irresistible.

Delhi, nearly 800 miles away, was kind to Mr. Singh—at first. He liked his work: He changed jobs often enough that he was always learning. He visited the capital's Mughal-era Red Fort and rode with friends on Delhi's new subway, a gleaming totem of modernity and progress.

His salary grew—from \$10 a month assembling light switches, to \$20 a month making brake components for cars and rickshaws, and eventually to \$100 as a laborer at a produce market. Still, he rarely found himself ahead of his expenses. While India's inflation rate was never low during the boom years, it crossed into the double digits by 2010.

In 2012, with the national economy sliding into lower gear, Mr. Singh says he felt like he was falling behind instead of moving ahead. So he packed up and moved back to Morkahi, to his family, their two-room brick house and their acre of farmland.

"Whenever someone leaves the village for the city and returns without earning money, it is shameful," says Mr. Singh. "We used our own money to go to the city. We wasted our time."

Photos: Workers Return to the Farm in India >



Vivek Singh for The Wall Street Journal

A large-scale return to the farm in India would be a stark turnaround for a country whose economic story, until recently, was that of an emerging information-technology powerhouse.

Consider the lopsided equation: Agriculture accounts for just a fifth of GDP, but half of employment. India's vaunted IT, finance and other service-related businesses, meanwhile, represent half of output but employ just a quarter of the country's workforce.

[The missing ingredient is manufacturing.](#) In East Asia, large, sophisticated factories have served as the conduit to urban life for millions of people from farm families. But in

India, manufacturing has hovered at around 15% of GDP for decades, much of this output coming from small, low-tech places like those where Mr. Singh worked. South Korea and Thailand surpassed this level

of industrialization in the mid-1960s. In both countries, and in China, manufacturing today is nearly one-third of GDP.

Why India never became a nation of factories is a persistent topic of study among economists. Some blame the impediments that all businesses face in India: erratic electricity supply, restrictive labor laws, crumbling roads. Others point to the coddling of giant corporations and the neglect of small- and medium-size firms like those found in China's industrial corridors.

On the consequences, however, almost all agree: As long as India's economy fails to create the kind of factory jobs that provide productive—and remunerative—employment for unskilled workers from villages, the rural majority will remain largely locked out of the benefits of growth.

Mr. Singh's younger brother, Lallan, made his own exodus from Morkahi in 2005, during his late teens. Now he, too, says he is planning to return home.

For nearly a decade, the younger Mr. Singh, who is unsure of his exact age but says he is in his late 20s, has worked in Delhi's sprawling Azadpur wholesale fruit and vegetable market, loading and unloading delivery trucks. He says he works 12 hours a day, six days a week, and earns about \$160 a month.

That is better than the \$50 a month he made in 2008, but it's still not enough. "My income has gone up, but inflation has gone up many times over," says Mr. Singh.

As a result, nothing—not food, not rent, not the medicine for the dengue fever he contracted last year—has become easier to afford.

The hardships and squalor of big-city life are another factor in migrants' decisions to go back to the village—or simply never to leave in the first place. Planning, infrastructure and housing in India's metropolises remain deficient, discouraging urbanization.

In 1990, according to the World Bank, the share of the population living in cities was about the same as China's: just over a quarter. In 2012, the figure was 32% in India and 52% in China. Last month Beijing unveiled a sweeping plan to have 60% of China's population living in cities by 2020.

Ram Singh's first home in Delhi was a 56-square-foot room that he shared with four or five other migrants. In a study released in February, the McKinsey Global Institute found that such economic deprivation is no less severe in India's cities than in the countryside.

"Urban growth in India is not planned growth," says Himanshu, an economist at Jawaharlal Nehru University in New Delhi who goes by one name. "It's something which is happening on its own."

In deciding to go back to the farm, however, people like the Singhs aren't only being pushed by dismal realities in the cities. They are also being pulled, thanks to expansive government programs aimed at allaying poverty in the heartland.

Poor families across India are entitled to monthly purchases of staple foods at cut-rate prices. To supply these ration shops, the government buys up great quantities of rice, wheat and sugar at above-market prices, lifting incomes in places where those crops are grown. Delhi has budgeted 1.15 trillion rupees, or \$19 billion, for food subsidies this fiscal year—slightly less than what it has allocated for health and education combined.

Since 2008, all rural households have also been guaranteed 100 days of paid, nonfarm work each year—mostly construction, ditch-digging and other manual labor. The Mahatma Gandhi National Rural

Employment Guarantee, as the program is called, has provided another income boost: Between 2010 and 2013, inflation-adjusted wages for men in the countryside climbed 9% annually on average, after a long period in which rural wage growth was almost entirely wiped out by price increases, though growth has slowed more recently.

But critics say that such safety nets only tie the rural poor to unskilled work and discourage urbanization. In a recent book, Columbia University economists Jagdish Bhagwati and Arvind Panagariya argued that the program threatens to slow down a process of migration to the cities "that is already moving at a snail's pace."

The Singh brothers' case would seem to illustrate the economists' point.

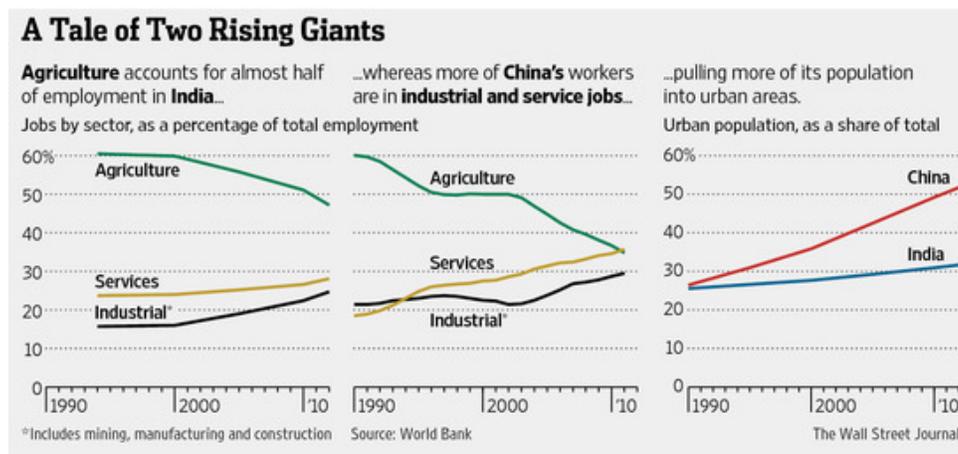
Ram Singh says he is thankful that his family owns land, which means he has never had to seek work under the employment guarantee. But for him and others choosing between the grind of the city and the comforts of the village, government aid has created new incentives to select the latter.

Thanks to increased purchasing power in Morkahi and the neighboring villages, almost everyone has a cellphone. The local pharmacy stocks Vicks cough drops, and the general stores sell Western-style packaged foods like "Masala Munch," a spicy, Cheetos-like snack.

Shambhu Sharan Singh, a farmer whose family has a 20-acre field near the Singhs' land—he isn't related to them—says villages these days nearly match cities for services, too. Take health care, for instance. A patient in Delhi might be able to reach a hospital more quickly because the roads are better, says the 35-year-old. But locals consider the village hospital to be about as good.

Bibek Debroy, an economist at the Centre for Policy Research in New Delhi, says an entitlement-fueled rural boom is nothing to celebrate. "People who formulate policy in Delhi have a very, very romantic image of what it is like to live in a village, even if most of them have never lived in a village."

Indeed, there is little reason to believe the rural revival can continue if factories stay away and farms don't become more productive. Per hectare, India's agricultural yield is a third of China's, badly lagging behind Southeast Asia as well. Most crops in India are grown on small plots like Ram Singh's, where tools and methods have only just begun to modernize.



Last year, a lousy one for corn, the Singhs sold their harvest for \$250. They also grow their own potatoes; their two cows provide milk. Lallan sometimes sends money from Delhi. But the family's income isn't keeping up with the rising prices of fertilizer and diesel for their groundwater pump.

Ram Singh says leaving home without proper education is his biggest regret. He hopes his 2-year-old son will stay in school and be able to find a good job outside the village. Farming, Mr. Singh says, is "the last option."

India's economy might not snap out of its malaise in time to provide the kind of work and opportunities for betterment that Mr. Singh and his brother were seeking for when they left for Delhi. But Mr. Singh is hopeful that by the time his three young children are grown, things will have changed.

He says he also wants his children to go to college in the city, if he can afford it. "If they get a good job, then they have to go," he says. "Their lives will be set. They will live happily."

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