

THE SIGNIFICANCE AND LIMITATION OF INDIA'S NATIONAL RURAL EMPLOYMENT GUARANTEE ACT IN ADDRESSING RURAL POVERTY¹

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Introduction

One of the most striking aspects of Indian growth in the past two decades is the uneven distribution of gains across people, regions and sectors. The adverse consequences of neo-liberal reforms have been borne disproportionately by underdeveloped regions, agriculture and allied activities, workers, women, Scheduled Castes, Scheduled Tribes and other economically and socially disadvantaged groups. Rural India experienced a level of distress that is unprecedented in Independent India, which affected most sections of the rural population, pushing them towards ever-increasing impoverishment, food shortages and hunger.

There is decline in the growth rate of productivity and production in agriculture. Another equally important consequence is the fall in remunerative employment and purchasing power and farm incomes (due to rising input costs and a simultaneous fall in farm prices). Indebtedness and land alienation grew, particularly in the drylands. Therefore impressive and sustained high economic growth of the past few years has been accompanied by the appalling failure in human development and poor investment and delivery of public services. Poverty is more in rural areas, though it is also alarming in urban areas. In rural areas, pure farmers and farm labourers are more susceptible to poverty than workers with non-farm income.

As has been argued in the literature, this is an outcome of trade liberalization, deflationary fiscal policies, contraction of the public works programmes and employment generation activities of the state and specific structural adjustment measures undertaken in the agrarian sector since 1990.

I. GROWTH, EMPLOYMENT, INCOME & POVERTY: THE EXPERIENCE

This section is divided into three parts. The first presents the experience in rural areas on agricultural growth, food security, employment and labour productivity, all of which have done badly during the past 15 years. The second part examines the research on the relationship between poverty reduction on the one hand and variables such as government expenditure, infrastructure, initial conditions such as health and literacy, growth, income, employment, prices, occupational structure of workforce, on the other. The last part is an analysis of the impact of neo-liberal reforms on poverty reduction.

Agricultural production and income growth decelerated from 1990. Growth of agricultural production fell from 3.5 in the 1980s to 2.0 per cent per annum in the 1990s, and real income growth fell from 4.5 to 2.5 per cent per annum over the same period. This implies a per capita annual growth of rural income and output of under less than 1 and 0.5 per cent. The per capita agricultural real incomes have declined after 1996-97, due to very low yield growth and adverse prices for non-cereal crops.

In the 1990s and early 2000s, there is a far more rapid decline in agriculture's share in GDP than agriculture's share in employment, implying a falling per worker productivity in agriculture and higher disparity between the agricultural-nonagricultural sector's labour productivity.

¹ There are two methods of poverty estimation in India, the direct and the indirect. In the direct method, the minimum norm of 2400 calories for rural and 2100 for urban persons (this person is a n adult male involved in manual labour, with suitable fractions for females, children, elderly and sedentary persons) is used to identify the poor from National Sample Survey data on the calorie intake corresponding to the quantities of foods consumed. The indirect official method uses the 1973-74 poverty line, or the per capita monthly expenditure whose food expenditure part gave 2400 calories per day in rural areas and 2100 in urban areas at that time. For later years a price index was applied to the old poverty line to update it. There is a sub-set in the debate over the choice of deflator or price index for updating the poverty line. In this Paper, we do not get into the debate over definition and extent of poverty. The data that is presented is the official indirect 'head count ratio' estimates.

Table 1: Trends in the Shares of Agriculture and Non-agriculture in Employment and GDP

Year	Agriculture		Non-Agriculture	
	Employment	GDP	Employment	GDP
1980	70.90	40.00	29.10	60.00
1990	64.00	32.00	36.00	68.00
2000	60.30	24.00	39.70	76.00
2004	60.10	22.00	39.90	78.00

Source: Shiela Bhalla (2006): *India's Rural Economy: Issues and Evidence*, Institute for Human Development, New Delhi

There is a shift of workers out of agriculture, and low and falling employment elasticities in agriculture. This failure to productively absorb rural workers in cultivator and agricultural labour households is resulting in a massive increase in low-paying self-employment, especially amongst women². With no increase in productivity in agriculture and remunerative work in the non-farm sector, this tendency is likely to grow.

Workforce participation rates in rural areas declined till the end of the 1990s decade, more for rural women than men³. Agriculture and allied activities continue to dominate in work in rural India, though this has declined in the 1990s.

The Planning Commission⁴ reports a fall in employment growth from 2.04 per cent during 1983-94 to 0.98 per cent during 1994-2000 largely on account of agriculture and community social and personal services, which together account for seven-tenth of total employment. Even though this was accompanied by a deceleration in the rate of growth of labour force from 2.29 per cent in 1987-94, to 1.03 per cent in 1993-2000, unemployment has grown since labour force growth outstrips the growth of employment.

The results of the latest quinquennial large sample rounds⁵ of the NSSO (the 61st Round, covering 2004-05) indicate that aggregate employment growth has recovered, but is still below the period 1987-88 to 1993-94. The recovery is more in rural areas than urban areas. There has also been an increase in labour force participation rates and work force participation rates, though to a lesser extent in case of the latter.

However, this increase in employment growth is accompanied by a substantial fall in wage employment and casual employment. Workers are therefore not finding paid work, on a regular or casual basis. There is instead a huge increase in self-employment across all workers, most substantially among rural women, where it has gone up to about 65 per cent of all work.

² Ghosh and Chandrashekhar (2006)

³ Besides the feminisation of lowly paid menial and arduous work, women's employment in the post-reform phase declined from 1.41 in 1983-93 to a mere 0.15 per cent in 1994-2000. For instance, women's employment in all the high growth sectors like rural transport, storage and communications fell from 8.30 per cent to 0.15 per cent in the post reform phase, while for rural men it rose from 4.51 in the pre-reform to 7.45 (Chadha & Sahu 2002) Kalpagam (2001) shows that additionally, female employment has been restricted to the informal sector.

⁴ Report of Task Force on Employment Opportunities", 2001, Planning Commission, Government of India; "Special Group on Targeting Ten Million Employment Opportunities per Year", 2002, Planning Commission, Government of India

⁵ This section relies on Ghosh, J and CP Chandrashekhar (2006): *Employment Growth: The Latest Trends*, www.macrosan.org

Table 2: Growth Rates of Employment (Annual compound rates per cent)

	1993-94 to 1999-2000	1999-2000 to 2004-05
Agricultural self employment	-0.53	2.89
Agricultural wage employment	1.06	-3.18
Total agricultural employment	0.03	0.83
Rural non-agri self employment	2.34	5.72
Rural non-agri wage employment	2.68	3.79
Rural total non-agri employment	2.26	5.27
Urban non-agri employment	3.13	4.08
Secondary employment	2.91	4.64
Tertiary employment	2.27	4.67
Total non-agricultural employment	2.53	4.66

Source: Ghosh and Chandrashekhar (2006) *ibid*

The catch is that most of this self-employment is not remunerative and can very easily be considered residual employment. In fact, a majority of the respondents themselves reported remuneration to be below their meager monthly requirement.

High performance of the unorganised, non-farm sector raises the issue of this being a residual sector and the growth reflects “distress diversification” in rural areas rather than betterment. The large share of the unorganised sector has also been growing. Over half of the total workforce in all sectors was engaged in self-employment in 1999-00—the proportion was 56 per cent in rural areas and 42 per cent in urban areas. Self-employment is a mixed bag comprising a whole range of economic activities as disparate as cycle repair shops, hawkers, tea shops, artisanal work to elite professionals like doctors, lawyers, etc.

Labour productivity or GDP per worker and wages are far higher in non-agriculture than agriculture. One important reason for this is that a large number of those who report themselves as employed are underemployed.

Table 3: Labour Productivity (at Constant Prices) in Rs.

	1980	1990	2000	2004
Agriculture	8305	10690	11931	12925
Industry	16746	22764	33068	38654
Services	16429	23464	33375	39139

Source: SAARC (2006) *Regional Poverty Profile*

Services have the highest and improving productivity levels since 1980, closely followed by industry, with low and stagnant agricultural productivity. The result is that non-agricultural productivity has increased from four times the agricultural productivity in 1980 to five times. Furthermore, the high productivity segments are located in the urban areas, and these productivity trends imply that urban-rural disparities are growing.

The *Task Force on Employment Opportunities* reports the rapidly declining employment elasticity to GDP in the 1990s, from 0.53 in the period 1977-78 to 1983 and to 0.41 in the period 1983 to 1994 to 0.15 in the period 1993-2000⁶. Employment absorption in the economy has declined, essentially on account of increased capital intensity. This has resulted in jobless or even job-displacing growth.

⁶ For a fuller discussion see Mahendra Dev

Table 4: Growth Rates of Real Wage Rates for Casual Labourers in Rural India

Sector	Sex	Growth Rates		
		1983 to 1987-88	1987-88 to 1993-94	1993-94 to 1999-00
Agriculture	Male	4.59	1.43	2.80
	Female	4.00	2.40	2.95
Non-Agriculture	Male	3.31	1.42	3.67
	Female	7.80	1.33	5.13

Source: Himanshu (2005) *Wages in Rural India: Sources, Trends and Comparability*, April-June *Indian Journal of Labour Economics*

Rural real wage rates in the non-farm sector are about one and a half times real wages in agriculture, and are rising at a faster pace. After peaking in the 1980s, real wage rates for casual labourers in agriculture slowed down in the early 1990s, to rise again after the mid-1990s. The improvement in real wages was more for farm sector wage rates, and for females, resulting in a reduction in male-female wage disparity. This has got altered after 2000, when the rate of growth of wages has declined⁷.

According to official data, only farmers operating areas above 4.0 hectares can meet their consumption expenditure exclusively from farm incomes. This covers only 6 per cent of Indian farmers. Low profitability of agriculture has made 40 per cent farmers report to the CSO during the 59th NSS Round that "they did not like" agriculture.

Sen⁸ argues that, in addition to deceleration in agricultural growth and rural non-agricultural employment growth, poverty reduction has also slowed down. The 1980s and 1990s saw a significant fall in the pace of urbanization, which coincided with a distinct increase in the rate of GDP growth. The decade of 1990s witnessed a growing disparity across states in the growth rate of SDP. Inter-state inequalities have increased in the 1990s and there is divergence rather than convergence. Rural-urban disparities too grew and rural areas have a concentration of labour in low productivity work.

Better performing states in terms of SDP have lower agricultural growth and higher dependence of the population and concentration of the labour force in the stagnant or decelerating agricultural sector. The twice as high growth of the rural population in states with low SDP growth and a lower initial average per capita income was extremely disturbing. There was therefore little correspondence between reforms and rural development or between urban economic development and rural development.

There has been a great deal of discussion on the relationship between growth, employment, income and poverty. The preceding section demonstrates the disjunction between growth and poverty reduction as well as growth and employment.

Correlates of Rural Poverty

The underlying causes of deprivation and poverty include unequal access to and ownership of means of production and subsistence; patriarchy and the gender-based division of labour; social status and ethnicity; exploitation through debt related usury and labour bondage; etc. The lack of purchasing power due to inadequate employment at remunerative wages; food insecurity; low and variable productivity of land and other assets; lack of access to public services, esp. health and education; non-farm employment; destitution; etc. are further causal factors. The literature has also identified policy variables that can be addressed in the short to medium term, like employment, economic growth, government expenditure, prices, real wages, etc.

Performance in poverty reduction varies across the Indian states. It has been most impressive in the South, in Andhra Pradesh, Karnataka, Kerala and Tamil Nadu, and in Haryana, Gujarat, Punjab and

⁷ Chandrashekhar and Ghosh (2006)

⁸ Sen, Abhijit (2002): *Agriculture, Employment And Poverty, Recent Trends in Rural India* in VK Ramachandran And M. Swaminathan(2002): *Agrarian Studies-Essays On Agrarian Relations In Less Developed Countries*, Tulika, New Delhi

Rajasthan. On the flip side, the absolute number of poor increased despite falling poverty rates in central and eastern India, in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh, due to disappointing poverty reduction. Differential performance in poverty reduction and 'initial conditions' have therefore led to the disproportionate concentration of the poor in these areas, and Bihar, Jharkhand, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, West Bengal and Orissa account for 54 per cent of the rural poor in 1973-74 which went up to 69 per cent in 1999-2000. We must remember, however, that states which have substantively reduced poverty have pockets (often tribals in hilly areas) of acute poverty. Maharashtra and Andhra Pradesh are two cases in point.

Through an econometric exercise, Abhijit Sen⁹ establishes the significance of relative prices of food and non-food items and aggregate per capita government expenditure in poverty reduction¹⁰ through their impact on high wage non-agricultural employment and the rural real wage rate. Neo-liberal policy makers often argue that that even as aggregate spending is reduced, the composition of government expenditure should be targeted on poverty alleviation. Sen's analysis does not support this view.

Since excess labour supply results in distress wage rates and underemployment or disguised unemployment and not in open unemployment, it is difficult to statistically show a straightforward and positive relationship between poverty and unemployment. For example, Bihar and Madhya Pradesh combine low agricultural development and high rural poverty with low unemployment rates, while Punjab has high agricultural development and high unemployment but a lower poverty ratio.

Real rural wage rates are positively related to poverty reduction, and the rate of growth of real rural wages was associated with the growth of non-farm employment in the period of high poverty reduction, the 1980s. The *structure* of employment growth was therefore far more important than employment growth *per se*, namely, the respective shares of agricultural and non-agricultural employment in the workforce, with high non-agricultural work associated with low poverty. This is not because of anything intrinsic to the non-farm sector, but the relatively lower productivity in agriculture.

Datt and Ravallion in an exercise show that, in addition to the effect of prices, output and government spending, the magnitude of poverty reduction in the states was dependent on the initial conditions in physical and human infrastructure in terms of irrigation, female literacy and infant mortality. Abhijit Sen too shows the importance of initial conditions for poverty reduction, such as health and education status, land distribution, etc. Jha, Biswal and Biswal¹¹ found that no matter which measure of poverty was used; development and health expenditures help reduce poverty.

⁹ Abhijit Sen (1998): Structural Adjustment and Rural Poverty: Variables that Really Matter in GK Chadha and Alakh N Sharma (ed) Growth, Employment and Poverty, Vikas, New Delhi

¹⁰ In this exercise, poverty was regressed against agricultural output per rural person, per capita SDP, a relative food price index (dividing the index of the food price in the CPIAL by the SDP deflator), an inflation index based on the SDP deflator, and per capita real state development expenditure. All variables except the per capita SDP were significant, and the inflation term was barely significant. The relative food price variable was statistically the most significant variable and also it was the most important in terms of its impact, followed by state development expenditure and only then agricultural output.

¹¹ Raghbendra Jha, Bagala Biswal, and Urvashi D. Biswal, *An Empirical Analysis of the Impact of Public Expenditures on Education and Health on Poverty in Indian States*

Shiela Bhalla demonstrates that social and economic infrastructure (as captured by the index of infrastructure¹² constructed by the Eleventh Finance Commission) plays a very important role in determining poverty. She finds a one to one correspondence between index of infrastructure and the incidence of poverty, with the notable exception of Rajasthan, a state with low infrastructure index and a low incidence of poverty. This is possibly because of the low population density and high area in the desert region, which brings down indicators with area in the denominator. The role of infrastructure is thus vital for poverty alleviation. During the 1990s, infrastructure (transport, communications, electricity, power and finance), explains variations in inter-state poverty ratios, rural wage rates and labour productivity.

Another important element in poverty alleviation is food security at the household level, which in turn requires national self-sufficiency in production and a universal, efficient and effective public procurement and distribution system. The socio-economically backward sections have a higher dependence on the PDS, esp. in the Southern parts of the country¹³ where it emerges as an important strategy for poverty reduction.

Per capita income is not significant in explaining poverty in any of the studies. The obsession with growth as the panacea for poverty is unwarranted. Much of the mainstream literature on rural poverty in India has zeroed in on agricultural output or productivity and relative prices and the debate have been around their relative significance and statistical specification.

There is a very weak link between the rate of agricultural growth per capita and reductions in rural poverty, because while most states did not increase per capita agricultural production in the 1970s and 1980s, most experienced large declines in rural poverty. This disjunction between poverty reduction and agricultural growth is a matter of concern.

Indian agricultural growth has shifted from expansion of cropped area to increase in yield along with a decline in the output elasticity of agriculture's demand for labour. In the 1980s, stagnant per capita agricultural output, and far slower growth in agricultural employment vis a vis the rural labour force was accompanied by real agricultural wages increase, due to the growth of rural non-agricultural employment, resulting in the reduction of poverty. However, despite the compelling evidence that the current pattern of growth does not have high correlation with poverty reduction, policy makers cling to agricultural growth as the panacea for poverty.

However, the importance of agricultural development for poverty reduction cannot be overemphasized in underdeveloped tribal areas characterized by an uneven, fragile and rugged ecology, rainfed agriculture and variability of rainfall. The poor are a heterogeneous group, ranging from tribal cultivators, Scheduled Castes, agricultural labourers, female headed households, etc. A large section of marginal farmers and agricultural labourers belong to the Scheduled Castes, and the gap between percentage SC population in poverty and overall poverty ratio is reducing only marginally, and SC population in poverty in urban and rural areas are 10 percentage points higher than the total population. The Scheduled Tribe population on the other hand has got more impoverished, and the gulf between the total population and STs has widened. This is most disturbing because it reflects neglect of the plateaus and uplands of the rainfed areas that are predominantly dominated by landowning tribal peasants, where the productivity is low and falling. In other words, it reflects cultivator poverty in the ecological zones characterized by high degree of concentration of tribal peasants. There, the development of backward areas through the development of dryland agriculture is an important factor in explaining high poverty. These areas require labour-intensive, location-specific conservationist soil and water management strategies for poverty-reducing broad-based agriculture growth.

¹² Includes infrastructure in agriculture, banking, electricity, transport, communication, education, health and civil administration.

¹³ Ranjan Ray and Geoffrey Lancaster (2004): On Setting the Poverty Line Based On Estimated Nutrient Prices With Application To The Socially Disadvantaged Groups In India During The Reforms Period

Impact of Economic Reforms

Economic reforms were introduced in India in 1991, after which there has been a great deal of discussion on its impact on growth, employment and poverty in rural areas. Experience in the last 15 years has shown the adverse impact of reforms on domestic food security, income distribution and poverty. The pace of decline in rural poverty slackened after the 1980s.

The reasons for this slowdown are not difficult to find. Analyzing data over the 20-year period between 1973-74 and 1993-94, the more important determinants of rural poverty (relative price of food and the level of government expenditure) worsened the structural adjustment policies. After reforms, we find a substantial fall in public spending, particularly in the social sector, esp. on education. The government's expenditure on employment generation too has remained stagnant. Additionally, the development of infrastructure, which is very important for creating the positive initial conditions for workforce diversification into the higher wage sectors, suffered due to a decline in capital expenditure as a percentage of state/national income after the 1990s¹⁴.

Table 5: Allocations for Rural Employment

Year	Total Rural Employment: SGRY, JGSY, NFFWP, EAS, NREGS	As % of Total Expenditure	As % of GDP
1999-00	3729	1.3	0.19
2000-01	2798	0.9	0.13
2001-02	4225	1.2	0.19
2002-03	9502	2.3	0.39
2003-04	9639	2.0	0.35
2004-05	6408	1.3	0.21
2005-06 RE	11700	2.3	0.33
2006-07 BE	12870	2.3	0.33

Source: Government of India: Economic Survey, various issues

After structural adjustment was introduced, relative price of food rose and public expenditure (in per capita terms and as a percentage of state income) declined. Foodgrain prices rose along with an increase in the administered prices of PDS foodgrain supplies after 1991, which made the principle wage good, namely food, costly. The higher government spending during 1976-90 was the principal reason for decline in rural poverty during that period. In this context, the fall in tax-GDP ratios after the reforms belies the government's stated concern for the poor since clearly the rich are privileged with all kinds of tax concessions.

Poverty reduction requires higher labour productivity and real wage rates, but after reforms the workforce has expanded in the poorest groups and reduced in the relatively better paid workforce categories. The workforce diversification that led to higher real agricultural wage rates between 1976-1990, was reversed in the 1990s with a downward pressure on rural wage rates. Foodgrain prices too rose along with an increase in the administered price for PDS foodgrain supplies after 1991 which made the principle wage good, namely food, costly.

Agriculture alone cannot absorb the entire rural labour force at remunerative wages; the development of non-farm employment is very important. However, the opposite happened after reforms and there was de-industrialization of the rural workforce in the 1990s. The main impediment to remunerative non-farm employment is the infrastructural weakness, especially in backward regions. Many poverty alleviation programmes (e.g. IRDP, NREP, RLEGP, JRY, DWCRA, etc.) have not borne fruit largely because of this. This re-emphasizes the vital role of public investment, precisely what the reforms attack. The workforce diversification that led to higher real agricultural wage rates from 1976-1990 was reversed in the 1990s with a downward pressure on rural wage rates.

¹⁴ Gupta, S, (2005)

In sum, government spending, real wages and relative price of food are by far the most statistically significant determinants of poverty. Unfortunately, economic reforms have increased the relative price of food, brought down government expenditure, and resulted in jobless growth in the high-wage sectors. It is no wonder that even the disputed government estimates show a slowdown in the rate of poverty reduction in the period after 1990.

II. NREGA AND POVERTY REDUCTION

This Section begins with a brief summary and critique of previous poverty reduction strategies in India. This is followed by a more detailed look at the National Rural Employment Guarantee Act and the potential it holds for reducing poverty. The section concludes with a discussion of the constraints and impediments that have come up in realizing its full potential.

Inadequacy of Preceding Employment Programmes:

NREGA has come after almost 56 years of experience of other rural employment programmes, which include both Centrally Sponsored Schemes and those launched by State Governments. These comprise the National Rural Employment Programme [NREP] 1980-89; Rural Landless Employment Guarantee Programme (RLEGP) 1983-89; Jawahar Rozgar Yojana (JRY) 1989-99; Employment Assurance Scheme (EAS) 1993-99; Jawahar Gram Samridhi Yojana (JGSY) 1999-2002; Sampoorna Grameen Rozgar Yojana (SGRY) from 2001; National Food for Work Programme (NFFWP) from 2004 were national rural employment schemes. The SGRY and NFFWP have been merged with NREGS in 2005. The Maharashtra Employment Guarantee Scheme (MEGS), launched in 1972-73 (the Act was passed in 1977), is an important state programme.

These programmes have generated much needed wage employment for the unemployed and poor. However, they have suffered from the following shortcomings:

- The allocation of funds is low, and utilization is even lower.
- The number of person-days of wage employment provided per family is also very low, inadequate to help the beneficiaries to derive a sustainable livelihood and become non-poor.
- Minimum wages are not paid due to high productivity norms under piece rated work
- There are also huge delays in wage payment.
- The worksites are devoid of any facilities
- Village level monitoring and vigilance committees are usually not constituted in most places, which results in very little accountability and transparency
- No attention is given to capacity building of the local functionaries and workers at the village level. Where the works are executed by contractors, the problem of non-payment of minimum wages and delayed wage payment is even more severe.
- There is a top-down bureaucratic approach in implementation and planning
- Women's participation in planning and works has been low and their tasks at worksites are invisible, unpaid and subsumed under the overall labour process
- These are supply-driven programmes

NREGA and the Right to Work

The passage of the historic National Rural Employment Guarantee Act (NREGA) by the Indian Parliament is of immense significance, especially in the context in which it has been enacted¹⁵. It is a recognition that the state cannot retreat from pro-poor development and is responsible to ensure livelihood security and employment. It undermines to some extent the economic policies that restrict the state's preeminent role to 'good governance' and the creation of a 'conducive environment' for

¹⁵ The Parliamentary elections in 2004 witnessed a huge upset for the National Democratic Alliance (NDA), a right wing coalition that aggressively pursued orthodox fiscal macroeconomic policies. Despite their commitment to fiscal conservatism, it became clear to their successors, the Congress-led United Progressive Alliance (UPA) that an NREGA and revival of agriculture are political necessities. The central government promised to enact an employment guarantee scheme, which has the potential of turning around the agrarian distress to some extent. In September 2004, the National Advisory Council headed by UPA Chairperson Sonia Gandhi put out a draft for rural areas that was in keeping with the commitment in the CMP .

foreign capital. Its enactment generated a fierce debate spurred in part by the Government itself producing consistently inadequate versions of the Draft legislation. It is perhaps not an exaggeration to state that the biggest opposition to the Bill came from within the Government itself, forcing the Left parties with a significant presence in Parliament to ensure last minute correctives in its design, scope and coverage.

The initial euphoria over its inclusion in the Common Minimum Programme (CMP) was replaced by growing skepticism as powerful neo-liberal forces worked to dilute the provisions. It is important to take note of the opposition, which has continued to form the basis for the subversion of the guarantee in implementation.

Broadly speaking, three different positions were taken on this issue. One regarded universal employment guarantee as both a desirable and feasible engine of broad-based equitable growth that will revive agriculture and the rural economy and reduce poverty by the creation of productive assets and the multiplier effects of demand expansion. (Patnaik, 2005; Ghosh, 2004; Papola, 2005; A Bhaduri, 2004 & 2005; Karat, 2005; Dhavan, 2005) Another opposed it as neither desirable nor feasible on the grounds of non-affordability, corruption, and preference for infrastructure-led growth models. They however conceded its political necessity for a stable democratic system (S Jain and S Acharya 2005; S Acharya a&b, 2004; B Debroy, 2004; Aiyar, 2005; S Bhalla, 2004&2005).

Yet another position, which lies somewhere between the other two, was taken by liberals who regarded employment guarantee as the 'human face' of globalization, as a kind of 'social safety net' which is desirable but feasible only under very restricted conditions (A Sen, 2005; various press statements by Dr Montek Singh Ahluwalia, Deputy Chairperson, Planning Commission and the Finance Minister). Though they advocated the need for an Act, they were ambivalent towards conservative macroeconomic policies. Their disagreement with finance capital was over the 'social exclusion' of some from the 'benefits' of globalization while the dubious 'benefits' in terms of growth and good governance as well as the treatise of 'scarcity of financial resources' were never questioned. Like the neo-liberal opponents of the NREGA, they too viewed globalization as an opportunity and a challenge and fiscal discipline as a virtue but differed over the degree of 'humanization' that is politically essential¹⁶.

Fiscal policy lies at the heart of these differences. The main plank of the Left-Keynesian argument for an EGS is the formation of the home market for non-inflationary growth through the multiplier effects of employment generation and utilization of idle resources (labour and installed capacity). This would reduce poverty by improving access to means of production and consumption. Pre-Keynesian fiscal orthodoxy guides both the liberal support and neo-liberal opposition, which claims a scarcity of rupee resources and the inherent superiority of zero or low fiscal deficits¹⁷. Since the urge to attain low deficits is accompanied by pro-rich tax concessions, prospects of mobilizing resources through debt recovery and tax-effort too seem bleak to them. The mainstream media and those sections that directly benefited from the orthodox fiscal policies played upon the insecurities of the middle class by stating that a universal rural employment guarantee will pose an inordinate tax burden on the middle classes, already burdened by high consumer price inflation.

¹⁶ Passionate pleas for an EGS were accompanied, even buttressed, by demands to end other rural development programmes, (Roy, 2005) to cut all other subsidies and state clearly in the Act that the first charge on the (presumably fixed) subsidy bill would be the employment programme (Ila Patnaik, 2005).

¹⁷ Economists refuted claims that this Act was unaffordable. The different estimates range between 0.7 and 1.4 per cent of GDP. Economists pointed to the "gift" of Rs. 5000 crores to a handful of traders at the stock exchange as a result of the dilution of the turnover tax, which was a simple measure for raising revenue. Removal of the capital gains tax was justified on the basis of the higher turnover tax, but even after retracting on the turnover tax front, the capital gains tax was not reintroduced. So the issue of finding resources is really a political one. If the tax-GDP ratio was restored to the 1991 level, there would be more than enough money for a universal urban and rural employment guarantee scheme. The Fiscal Responsibility and Budget Management Bill was a dangerous act that ties the hands of the government. There was no harm in printing money to finance development schemes, since this is not inflationary in the current context, with wage goods and excess foreign exchange reserves available in the system.

Political compulsions did not however allow the opponents of the EGA to prevent the introduction of the Bill in Parliament. But they tried to dilute it by raising objections acceptable even to well-meaning advocates for whom the guarantee is a social security measure. The Bill tabled in Parliament was not national, nor at minimum wages nor universal, and violated the very notion of a guarantee. The lacunae fell into three categories, (a) access and entitlements, (b) nature of permissible works (c) institutional and financial structure.

Amongst the most crucial deficiencies in entitlements were the absence of a time bound extension to the entire country and no commitment of the minimum number of districts to be covered. It also had a 'switch-off' clause, which allowed the guarantee to be withdrawn any time. It did not universally empower all rural households, targeting only those officially identified as poor or 'below poverty line (BPL)'¹⁸, roughly 27 per cent of the population in 2002. This it did for the poorest districts of the country. Individual entitlements were not given. It had a broad and all-encompassing definition of household which would imply low entitlements per worker, with a limited guarantee for 100 days per year. It did not have a water-tight provision for unemployment allowance. There were no safeguards for women's access to the guarantee given at the household level. Nor did it guarantee the payment of the statutory minimum wages for unskilled agricultural workers or provide any floor to the wages that were to be paid. It introduced the subjective criteria of 'diligence' for the quality of work and permitted productivity linked wages without assuring the payment of statutory minimum wages. The Bill also had a rigid and restrictive over-specification of permissible works (focusing on manual work and durable assets) instead of a flexible, inclusive and location-specific definition, with greater scope for decentralized local area planning.

The main official amendments to the NREGB arrived at after intense negotiations with the Left parties remained elusive for a very long time.

The Act guarantees each rural household a hundred days of manual work on a casual basis each year and will irreversibly cover all rural areas by 2009. The household and those of their adult members who are willing to perform casual manual labour are required to register with the relevant authority, and are required to apply for work, each time specifying the period and timing of work. Though for the moment they will be paid the minimum wage fixed by the State Governments for agricultural labourers, the Centre has the power to notify wages under the Act, provided these are no lower than Rs 60¹⁹. A failure to provide work within 15 days of application would require the state governments to pay an unemployment allowance to the worker, which is at least one-fourth of the wage rate for the first thirty days and not less than one-half of the wage rate for the remaining period. Priority will be given to women in such a way that at least one-third of the beneficiaries shall be women. Some minimal worksite and social security facilities will be provided by way of childcare if there are 5 or more children under the age of 6 at a worksite, safe drinking water, first-aid, hospitalization in case of injury, ex-gratia payment, etc.

¹⁸ The Planning Commission estimates the number of poor in the country based on the definition of poverty in terms of per capita monthly expenditure corresponding to per capita daily requirement of 2400 calories in rural areas and 2100 calories in urban areas from the consumer expenditure survey data of the NSSO which covers expenditure on food and certain non-food items by updating 1993 estimates using a regional specific price index and the consumption basket of 1973. Economists have criticized the methodology on several points: an outdated consumption basket, choice of price index and most of all the easy availability of far higher direct poverty estimates from the NSS data in terms of the actual calorific consumption. Utsa Patnaik showed that the calculations based on indirect estimates actually lowered the minimum calorie content in the consumption basket, and that using the actual calorie consumption alone would yield much higher estimates of poverty. Since 1992 the Ministry of Rural Development has conducted a BPL survey to actually identify the poor, timed with the five year plans. The Ministry funds the census conducted through field surveys by the each State Government. Unlike the Sample Surveys used by the Planning Commission to estimate poverty, the MoRD census to identify poor households is a house to house census of all households. The methodology and questionnaire is decided by the Ministry. This has no absolute and uniform cut-off across states and even districts but is linked to the Planning Commission estimates in such a way that each state has to adhere to the percentage set by the Planning Commission.

¹⁹ This allows the Centre (if it so chooses) to pay less than minimum wages in those states where the relevant minimum wage is above Rs 60.

NREGA and Poverty Reduction

Real wages and employment in the Scheme should be high if the Programme has to make any significant dent on poverty. Low wage work for a few days each year will help keep people alive without necessarily pulling them out of poverty.

There was a great deal of debate on the wage issue when drafts were under formulation, esp. around the level of wages, method of wage calculation, and mode of wage payment. Some supporters of the NREGA opposed productivity linked wages and supported a shift to work on a time rate basis at statutory minimum wages. Others in favour of piece rate and lower than market wages argued that it had the advantage of ensuring self selection and targeting the Scheme to the neediest as it is a foolproof expression of the willingness to perform manual labour. For them, the lower the wages, the more effectively self-selection will work as only the most desperate would want to avail of the employment opportunity. Furthermore, the incentive for corruption and leakages through non-serious applications and misuse of the unemployment allowance by the rural elite will come down with low wages. If the wages are higher than the prevalent market wages, there would be an upward pressure on wages that would be adverse for agriculture. It was also argued that piece rate will ensure productive use of scarce fiscal resources and create a fixed quantum of durable assets per unit expenditure. The argument that wage is as important as employment to pull people out of perpetual poverty, was opposed by liberals and neo-liberals alike, who argued that asset creation and self-selection could only be ensured through productivity linked wages. The financial motive behind low productivity norms was that the payment of lower wages keeps spending very low under the Scheme, since wages are 60 per cent of the total cost and fully borne by the centre. Ultimately, the Act compromises on the wage issue in two ways: by permitting productivity linked wages (though with a safeguard) and delinking wages from statutory norms. cost indexation. Even though it permits piece rates, it adds two very important riders: that workers shall not receive less than the minimum wage; and that the state government shall set productivity norms and rates in such a way that 7 hours manual labour earns the minimum wage.

III. IMPLEMENTATION OF NREGS²⁰

Contrary to the perception of its opponents from within the urban elite and the fiscal orthodoxy, expenditure on the Scheme remains extremely low, even below the paltry budgetary allocation that was made. Fiscal conservatism and the lack of official will to transform from a supply driven public works programme to a demand driven employment guarantee combine to keep spending low. The poverty reducing potential is severely undermined through non-recognition as right holders; inability to make claims due to excessive bureaucratization of procedures and imposition of a host of arbitrary and discretionary eligibility conditions; non-fulfillment of entitlements guaranteed under the Act, in particular days of work and wages. We now turn attention to these issues.

General Observations

There is a tendency to keep spending low through a combination of measures that violate the NREGA in letter and spirit. The overall climate is of fiscal orthodoxy where low public expenditure and near-zero fiscal deficits are considered ends in themselves. This formed the ideological basis for the opposition to the Act in the first place. The conservatives believe that any expenditure on the Scheme is a waste of scarce resources, better spent on large infrastructure projects and human

²⁰ Based on several field Reports on the NREGA available at <http://www.righttofoodindia.org/>, including one done by ISWDS in which the present author was involved.

1. Monitoring and evaluation of National Rural Employment Guarantee Scheme with special focus on gender issues (Indian School of Women's Studies Development, New Delhi, October 2006)
2. Survey to monitor implementation of the NREGA: Andhra Pradesh, Chhattisgarh, Jharkhand, Madhya Pradesh by the Centre for Budget and Governance Accountability, 30 August 2006)
3. Employment Guarantee Act: Tall Claims and Ground Realities; Soaring Prices, Crumbling Public Distribution System, and the UPA Government [Report of a public hearing organized by the All India Agrarian Labourers' Association (AIALA), 17 August 2006, Jantar Mantar, New Delhi]
- 4.

capital formation. Frustrated by Parliament's passage of a more pro-worker Act than acceptable to neo-liberal forces due to the insistence by the Left, opponents have now changed tacks to narrow down the Scheme during its implementation. This is through low coverage and unwarranted exclusion of the eligible population in notified districts; unfulfilled entitlements even for those fortunate enough to be registered; impermissible restrictions on eligibility, verification and works; inadequate administrative capabilities and little effort to overcome deficiencies in manpower, skills and training, etc.

Table 6: Selected Statistics on Performance in NREGS Implementation

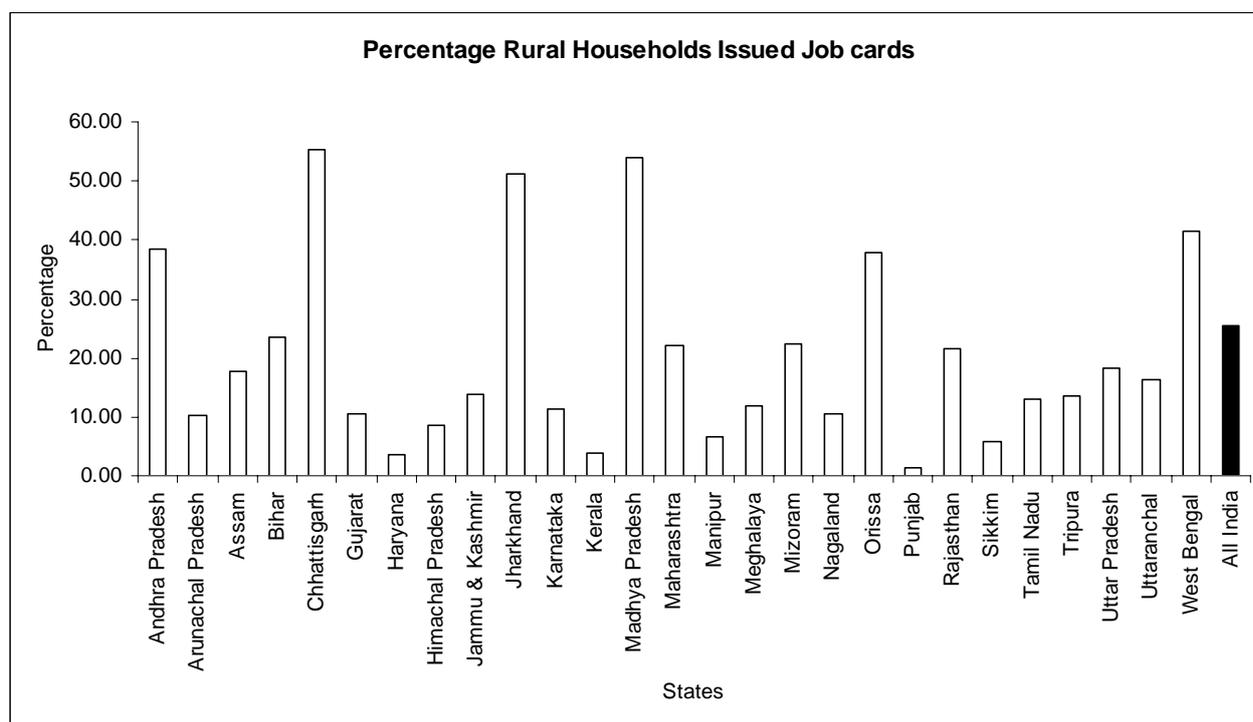
S.No.	State	% Expenditure against Total Available Funds	Women's Work as a % of Total	Work Days per Households Who Demanded Work	Work Days Per Registered Household	% Rural HHs Issued Job cards
1	Andhra Pradesh	37.08	50.72	25.10	8.29	38.40
2	Arunachal Pradesh	81	30.02	26.76	26.76	10.17
3	Assam	58.2	21.89	65.39	39.81	17.68
4	Bihar	38	18.10	10.32	7.38	23.39
5	Chhattisgarh	54.71	53.14	43.09	21.12	55.29
6	Gujarat	63.06	52.04	46.20	10.90	10.48
7	Haryana	49.78	27.65	33.49	13.28	3.60
8	Himachal Pradesh	61.85	10.15	23.94	18.58	8.64
9	Jammu & Kashmir	26.65	0.10	1.14	5.95	13.90
10	Jharkhand	39.47	30.81	0.00	11.36	51.25
11	Karnataka	67.26	53.47	27.81	18.40	11.34
12	Kerala	26.06	52.90	12.31	3.86	3.83
13	Madhya Pradesh	62.3	39.96	61.00	34.41	53.99
14	Maharashtra	26.74	NA	NA	0.00	22.08
15	Manipur	49.15	40.07	0.00	46.20	6.55
16	Meghalaya	2.69	248.76	13.90	5.07	11.91
17	Mizoram	56.19	32.51	12.78	12.53	22.30
18	Nagaland	85.21	30.01	40.76	40.76	10.57
19	Orissa	48.46	32.88	40.05	20.20	37.89
20	Punjab	45.16	34.48	0.00	29.68	1.33
21	Rajasthan	61.42	64.11	74.61	53.28	21.45
22	Sikkim	36.69	19.35	37.70	25.95	5.90
23	Tamil Nadu	63.33	48.21	26.44	11.87	13.13
24	Tripura	97.64	75.34	68.38	62.89	13.43
25	Uttar Pradesh	55.94	16.11	26.31	14.52	18.31
26	Uttaranchal	54.39	28.23	24.68	13.60	16.41
27	West Bengal	42.21	13.92	10.06	5.04	41.43
	All India	50.47	39.68	33.64	16.02	25.41

Source: www.nrega.nic.in

1. Restricting Access

Access is restricted in many different ways. Registration is not seen as a continuous process and "last dates" are announced, which is a violation of the Act. Though not required under the Act which wanted to keep the procedure simple and non-bureaucratic, documentary proof for verification of age, residence and family entity like Ration Cards, Voter ID cards, etc. is unnecessarily insisted upon so that fewer persons are recognized as right holders. Individual cards are not issued in most states, and widowed, separated or divorced women in natal home and female headed households are not recognized as independent households. All kinds of arbitrary and unjustifiable criteria are used for eligibility like age, BPL card, income, or disability etc. which are not permitted by the Act. Apart from women, the elderly, handicapped and migrants face disproportionate exclusion. However, getting registered is no guarantee that the household would manage to get the job card that is necessary for applying for work, and there is a high gap between registration and job card

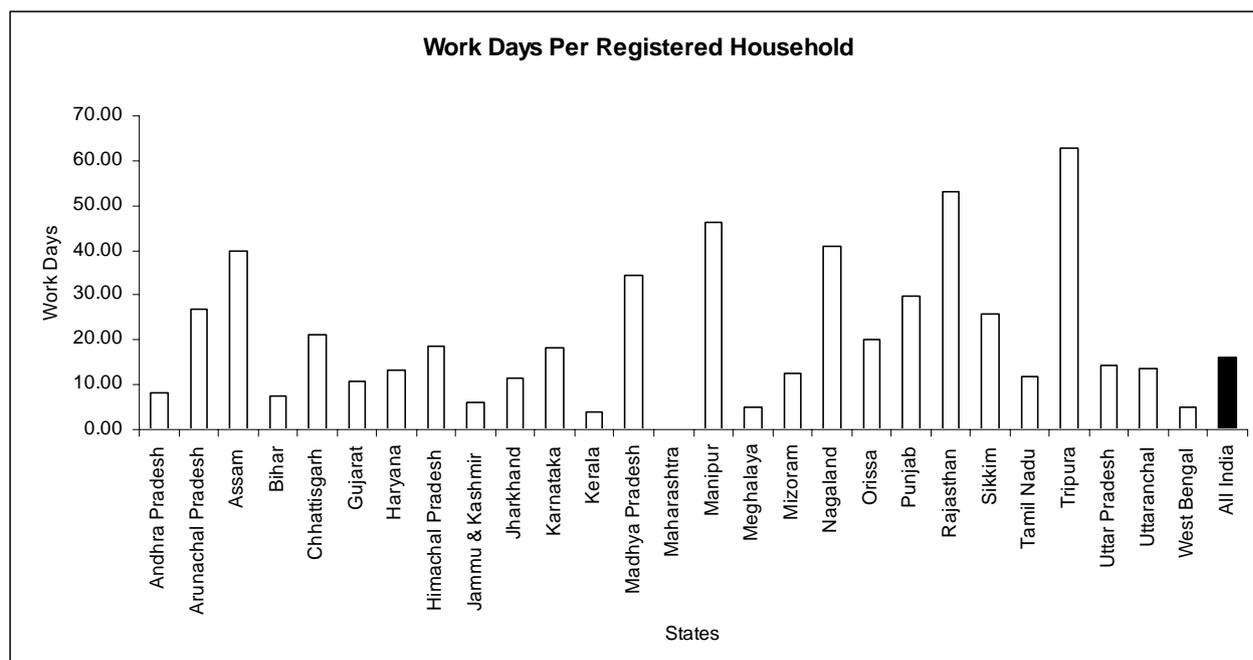
distribution. Claim making is a needlessly complicated process due to the additional requirements imposed by the local bureaucracy.



Source: www.nrega.nic.in

2. Unfulfilled Entitlements

Workers are denied their due entitlements of work, wage, worksite facilities and unemployment allowance. There is an incorrect definition of household (as common kitchen comprising a larger joint family) instead of nuclear family and consequent reduction of per capita entitlements. This is accompanied by very low wages (close to market wages) and non-payment of minimum wages due to unrealistically high productivity norms under piece rate. Not only are productivity norms high, there is also no distinction between male and female outturn requirements and no reduction in norms for women and the elderly. Inadequate identification of separate tasks in the labour process and imprecise task specification and decomposition, along with sketchy soil identification, stingy lift and lead provision and faulty measurement of outturn at worksites combine to result in low wages. Despite the amendment in Parliament deleting the requirement of 'diligence', most states have retained it to describe work.

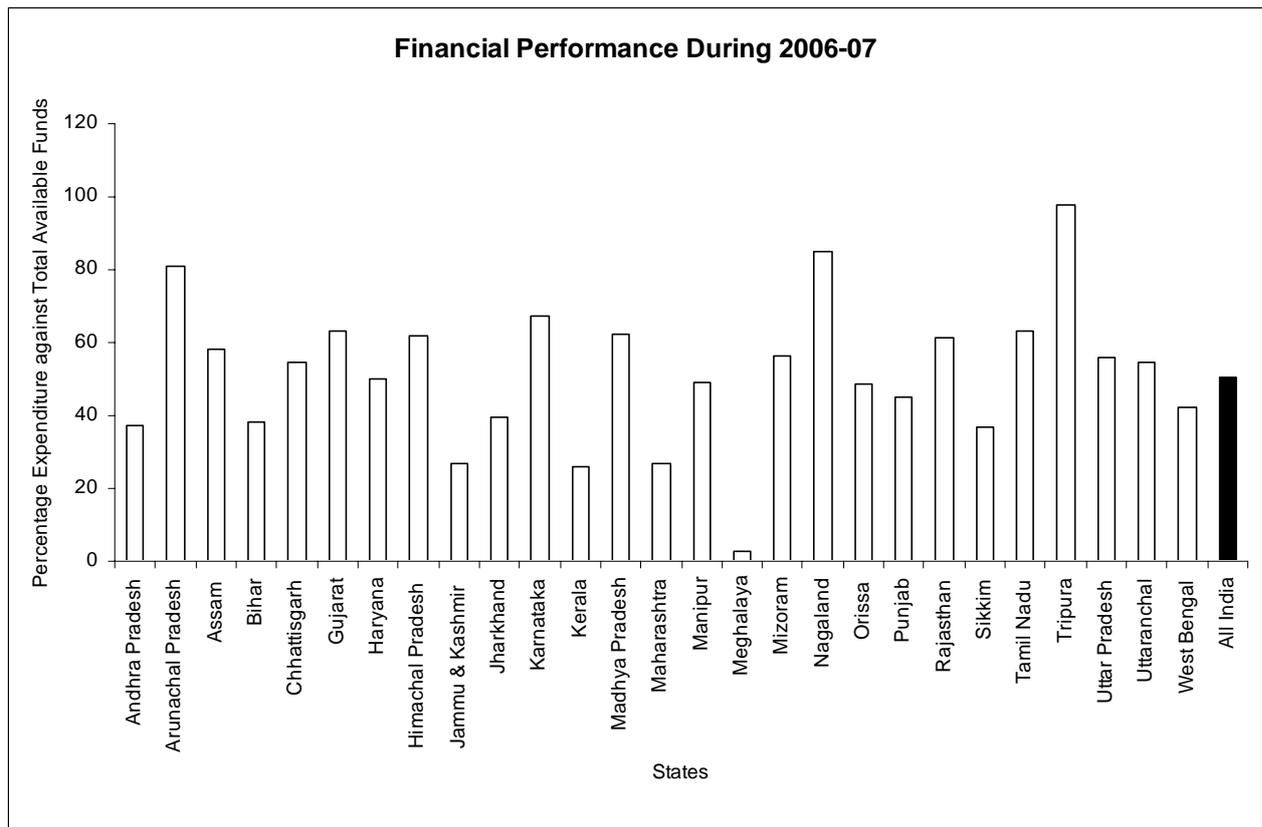


Source: www.nrega.nic.in

The amount of work generated is very low. Wage payment is often delayed, with delays ranging from 3 to 4 weeks. Payment in cash only in most places is not in keeping with workers' requirement of food security. Unemployment allowance or compensation has not been paid to anyone and there is no attempt to encourage applications for work. The worksite facilities are highly inadequate, esp. childcare and drinking water. Many workers are too poor to purchase implements and implementing agencies are unwilling to provide them as part of the material cost.

3. Administrative and Financial Shortcomings

There is gross under utilization of EGS funds due to the fiscal conservatism mentioned earlier. The lack of official will to transform from a supply driven public works programme to a demand driven employment guarantee is facilitated by low awareness about details of Scheme on the part of potential beneficiaries, panchayat members and officials. Shortage of staff, especially technical staff, and a hesitation to hire Block level Programme Officers on contract or permanent basis reduces administrative capacities. The pace of estimate preparation of the works selected by the village assembly is very slow. Inappropriate persons are appointed to manage the worksite. Even once estimates are prepared, there are delays in the commencement of works due to bureaucratic delays and needless paperwork.



Source: www.nrega.nic.in

There is an absence of creative thinking on the nature of works in the most food-deficit rainy months when there is greatest need for wage employment and lowest possibility of normal earth works. Even at other times, there is a non-innovative approach in the selection of works with an overemphasis on roads and ponds. Transparency and accountability clauses have not been implemented and monitoring and vigilance committees have not been formed in most states.

Table 7: Percentage Expenditure on Works/Activities During 2006-07

S. No.	State	Rural Connectivity	Flood Control & Protection	Water Conservation & Water Harvesting	Drought Proofing	Micro Irrigation Works	Provision of Irrigation facility to Land Owned by	Renovation of Traditional Water Bodies	Land Development	Any Other activity Approved by MRD
1	Andhra Pradesh	0.31	0.00	53.15	10.23	5.39	0.13	9.36	21.44	0.00
3	Assam	51.06	12.42	5.89	2.60	6.85	0.62	2.71	7.75	10.10
4	Bihar	55.12	2.66	15.60	1.99	2.22	0.57	2.27	0.38	19.18
5	Chhattisgarh	36.55	0.28	24.27	25.44	6.19	0.00	6.56	0.24	0.48
6	Gujarat	24.44	2.52	63.27	3.37	0.84	0.17	3.32	2.04	0.03
7	Haryana	56.24	0.00	31.11	1.14	6.80	0.00	3.43	0.00	1.28
8	Himachal Pradesh	43.88	10.92	9.95	6.33	5.01	0.28	2.21	3.47	17.96
11	Karnataka	33.10	5.94	37.11	4.99	3.62	3.95	6.44	3.71	1.14
12	Kerala	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13	Madhya Pradesh	42.74	2.38	34.44	5.56	0.64	6.44	2.36	2.96	2.49
14	Maharashtra	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
15	Manipur	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
16	Meghalaya	57.17	0.00	7.60	3.40	0.41	0.00	17.45	13.97	0.00
17	Mizoram	78.40	4.22	13.90	0.00	0.00	0.00	0.00	0.00	3.49
18	Nagaland	62.72	2.08	13.64	2.87	13.18	0.00	0.24	5.28	0.00
19	Orissa	58.74	1.76	13.16	4.02	0.17	1.58	13.43	0.87	6.28
20	Punjab	75.76	0.50	0.00	0.21	0.00	0.00	17.85	5.68	0.00
21	Rajasthan	31.93	0.71	40.04	3.53	1.77	0.48	20.34	1.05	0.15
22	Sikkim	13.52	56.10	5.36	0.65	22.24	0.00	1.96	0.17	0.00
23	Tamil Nadu	5.68	1.98	18.97	0.01	24.67	0.00	48.69	0.00	0.00
24	Tripura	54.37	7.77	17.07	9.05	0.46	0.29	0.59	10.40	0.00
25	Uttar Pradesh	50.26	3.64	18.12	5.56	1.77	0.63	12.13	3.23	4.67
26	Uttanchal	11.14	18.43	37.98	18.02	5.11	0.08	2.01	0.32	6.91
27	West Bengal	36.93	11.94	14.47	12.03	6.47	1.28	7.65	5.27	3.95
	Total	55.99	0.23	9.01	3.59	0.60	0.16	16.86	13.29	0.28

Source: www.nrega.nic.in

IV. CONCLUSION

A unique and radical programme like the NREGA requires time to be fully or even substantially streamlined. Unfortunately, there is a sense of nervousness in the bureaucracy about increasing expenditure that has resulted in a narrow and parsimonious Scheme. The main characteristic of the Scheme is sluggish and low spending rather than wastage and 'leakages'. The bureaucracy seems to be in the grips of some kind of fear and lethargy, or simply a resistance to disturbing the pre-existing power equations at the local level. This stems from pessimism of the developmental outcomes of this programme, suspicion surrounding its empowerment spin-off and changing balance of power and an overall climate of fiscal tightening and low spending. This gets reflecting in low work days per household; low wages due to high productivity norms; low coverage and non-recognition of many eligible persons as right holders; reduced per capita entitlements through the definition of household on the basis of common kitchen, and absence of systems to engender application-driven implementation.

While the additional income does to some extent reduce hunger and distress outmigration, it is unlikely to be adequate for pulling people out of poverty. The inability to effectively address poverty through the NREGA arises from the following features: low productivity-linked wages, inadequate employment generation, permitting only casual manual work and the restrictions on permissible

works. Barriers through the imposition of arbitrary and illegal eligibility conditions and bureaucratic procedures and the absence of a fair and simple system for claim-making under the Scheme further curtail overall expenditure. Low access, work and wages combine to restrict aggregate spending and poverty reduction through the NREGS.

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