How Feasible is a Rural Employment Guarantee?

Jayati Ghosh & C.P. Chandrasekhar

There is no doubt that employment generation has emerged as not only the most important socio-economic issue in the country today, but also the most pressing political concern. The mandate of the recent elections is clear on this: the people of the country have decisively rejected policies that have implied reduced employment opportunities and reduced access to and quality of public goods and services.

Indeed, one of the main reasons for the defeat of the previous government was the widespread dissatisfaction with that government's economic policies. The complete collapse of rural employment generation (which that government tried to cover up through statistical jugglery and false, even insulting claims about "India shining") was a dominant cause of public dissatisfaction.

Chart 1 shows why this should be so. The latter part of the 1990s witnesses total rural employment (of all kinds – that is self-employed and wage labour, principal or subsidiary occupation, full-time or part-time) growing at the miserable rate of only 0.58 per cent per year, at a time when the rural population was growing at around 1.7 per cent per year. Subsequently, matters have hardly improved, although the lack of comparable data does not allow us to make meaningful calculations of the rate of change.

This was why almost all the political parties that currently form the ruling United Progressive Alliance, as well as the Left parties that have extended outside support, made the issue of employment a major plank in their electoral campaigns and their manifestos. And the promise to do something about rural employment generation in particular was probably one of the most significant promises that actually resonated with the electorate.
Therefore, it was only to be expected that the promise of generating rural employment through public works programmes would find major expression in the declared programme of the new government – avoiding it would have meant a major retraction from all the promises that have actually won this new government its current power.

Fortunately, the new government has recognised the importance of this issue, and the need to do something to regenerate rural economic activity in particular. One of the first sections of the Common Minimum Programme of the UPA government makes the following promise: "The UPA government will immediately enact a National Employment Guarantee Act. This will provide a legal guarantee for at least 100 days of employment on asset-creating public works programmes every year at minimum wage for every rural household."

This is not a new idea – the United Front government in 1991 had floated such a scheme, and it has already been sought to be implemented in some form by state governments such as those of Maharashtra over several decades. However, such a commitment by the central government is indeed new, firstly because it promises to make this a legal right of all citizens, and secondly because the onus of finding the funds for such a programme (if not the actual implementation) rests squarely with the central government rather than with the states.

This is a very important commitment, and one that should be given top priority, if the new government wants to remain faithful to its mandate. However, this particular promise is already being excoriated in the financial press, and by skeptical observers who find any public outlays that benefit the common people to be "populist" and undesirable, even when they wholeheartedly approve of fiscal measures that end up transferring huge amounts of public assets and resources to large capital and the already rich.

The main criticism that is being raised against this programme is that it would simply be too expensive and therefore impossible for the government to fulfill this particular promise. All kinds of extravagant claims are being made about the fiscal outlays that are required, and the numbers are so inflated as to make the attempt appear to be impossible.

In this context, it is worth investigating the actual costs likely to be associated with this programme in a more realistic way. The first point to bear in mind is that, while the employment guarantee is a legal guarantee provided to every rural household, quite obviously every such household would not take up the offer. Employment schemes have the great virtue of being self-selecting by the poor (and therefore not requiring targeting) since anyone who can get income above the minimum wage through any other activity would not be interested.

Therefore, it is likely that only a proportion of rural households would choose to avail of the offer and take up such employment, and even among such households, not all of them would choose to take up such employment for the full 100 days that are promised. Given the prevailing estimates of rural poverty, wage incomes and occupational structure of the rural population, the chances are that between one-third to around 40 per cent of all rural households would choose to exercise this right across the country – which is between 49 to 59 million households.

This does not necessarily mean that only this number of households would be involved in such a programme; rather, that the total number of employment days that would require to be generated would be around that number, with possibly more households than that
participating but some households taking less days of work from such programmes.

Now consider the cost per household. This involves providing 100 days of work to any member of the household at the minimum wage. The minimum wage varies across states, but the weighted average can be taken as Rs. 60 per day. Of course the assumption must be that the wages would be equal for men and women workers – which is what is legally required but has not always been followed in employment programmes thus far. This means that the wage component of the cost per participating household would be Rs. 6,000 per year.

Assume that wages will account for two-thirds of the total cost, so that the non-wage component would come to Rs. 3,000 per year, generating a total cost of Rs. 9,000 per year per household. The non-wage component is slightly less than it has been in recent years in existing employment schemes, but it is argued that this is easy to achieve especially with decentralised panchayat-level control over such resources and the implementation of this programme.

This means that the total cost of such a programme would probably come to somewhere between Rs. 44,000 crores and Rs. 53,000 crore per year. These calculations are presented in

### Table 1.

<table>
<thead>
<tr>
<th>Wage cost per household</th>
<th>Non-wage cost per household</th>
<th>Total cost per household</th>
</tr>
</thead>
<tbody>
<tr>
<td>6000</td>
<td>3000</td>
<td>9000</td>
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</tbody>
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(Figures in millions)

<table>
<thead>
<tr>
<th>Total households</th>
<th>40 per cent of households</th>
<th>33 per cent of households</th>
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<tbody>
<tr>
<td>148</td>
<td>59.2</td>
<td>49.3</td>
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(Figures in crores per year)

<table>
<thead>
<tr>
<th>Total cost with 40 per cent of households</th>
<th>Total cost with 33 per cent of households</th>
</tr>
</thead>
<tbody>
<tr>
<td>53100</td>
<td>44100</td>
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</table>

At first glance this may seem like a large amount for an annual outlay. However, a number of points have to be borne in mind in this connection. First, even if such employment generation yielded no other positive result, the fact is that increased wage incomes in rural areas would generate more demand for rural goods and services, and thus generate positive multiplier effects. In a condition of major economic slack, such as operates in the rural economy of India today, this would have large beneficial implications for material conditions, and even contribute to increased tax revenues because of higher levels of economic activity.
Second, it must be remembered that such a programme does not involve an expenditure of resources for the sole purpose of creating employment. Rather, the idea is to use the workers productively in activities which will build or maintain assets in the countryside, or provide important social or economic services. So such expenditure will yield dividends not only in terms of higher levels of economic activity in the present but also through improving the conditions of production in rural areas. There are many such potential activities which can have important effects on supply conditions, productivity and sustainability of rural economic activities, in both agriculture and non-agriculture.

For example, constructing and maintaining roads and other connectivity (which has thus far been the most popular form of activity in such schemes) has direct and indirect effects in agricultural marketing and a whole range of other economic activities, besides generally improving the conditions of rural residents. But other activities, which are often far less capital-intensive, such as building and maintaining bundhs, minor irrigation works, clearing out and desilting ponds and rivers, also have very positive short run and long run effects on production conditions and can also improve the sustainability of cultivation patterns generally, implying important social gains.

But even these do not cover the full range of possibilities in terms of productive and useful activities that can be undertaken under such an employment programme. There is a huge range of social services that must be performed, which are now systematically underprovided across rural India. These include activities such as those performed by workers in educational and health institutions who provide maintenance and support, the provision of mid-day meals in schools, sanitation services, and the like. There is no question that greater provision of such necessary public services would greatly improve the quality of life of rural residents, and also contribute directly and indirectly to economic growth.

So this amount is really not very much when seen as part of a broader public investment and development programme that is particularly focussed on rural regeneration, which is unquestionably the most urgent policy focus today. In any case, some Rs. 6100 crores was already committed to rural employment schemes in the interim budget, so this involves an additional outlay of around Rs. 40,000 crores.

Third, consider how this amount compares with other expenditures made by the central government. Chart 2 provides the interim budget 2004-05 estimates of outlays on defence, subsidies and rural employment, as well as the current estimate of additional resource requirement for employment guarantee. It is evident that the proposed new outlay is well below the anticipated defence expenditure, and even below the projected expenditure on subsidies.
In any case, this projected amount likely to be spent on employment guarantee is a trifling percentage of projected GDP – amounting to only 1.55 per cent of projected GDP at the coverage of one-third of rural households and still only 1.86 per cent of GDP at 40 per cent coverage. This is well below the proposed increased expenditure of this government on education, and indeed well below a large range of other less productive expenditures of the government.

More to the point, it is substantially below the fiscal effect of the large tax give-aways of the central government, which over the period since 1980-81, have caused the central tax-GDP ratio to fall from more than 13 per cent to less than 10 per cent. It is interesting that the same economists who have supported such huge transfers to the rich through lower tax collections, have been the most bitterly opposed to employment schemes which would not only provide relief to the poor of the country but also create valuable assets and provide important social and economic services.

In sum, the employment guarantee scheme has much to recommend for itself. It costs about as much or far less than many other lower priority activities, which have in some cases have been rightly emphasised by this and previous governments. It can be dealt with in a manner which simultaneously ensures the realisation of the pressing need to increase capital formation in rural India. If properly planned and implemented it can help deliver much needed quality public services in rural India. By providing incomes to those it need it most it can help redress an unacceptable feature of the Indian economy – the persistence of large scale poverty.

Finally, while achieving all this it would result in increases in output and tax revenues, which helps finance a part of the expenditure on the scheme. There can be no better example of a winning initiative. Therefore, there is no real need to defend it against those who perversely welcome "dream budgets" with tax concessions as progressive and market friendly, while illegitimately dismissing an employment guarantee scheme that is targeted at increasing capital formation and productivity in rural India.