Addressing the employment challenge: India's MGNREGA

Ajit K. Ghose
Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on Social Justice for a Fair Globalization, and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker’s rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work, in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body’s Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector’s publications consist of books, monographs, working papers, employment reports and policy briefs.

The Employment Working Papers series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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2 See the successive Reports of the Director-General to the International Labour Conference: Decent work (1999); Reducing the decent work deficit: A global challenge (2001); Working out of poverty (2003).


4 See http://www.ilo.org/employment.
Foreword

This important study provides an early assessment of India’s much acclaimed job creation programme – the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). It examines, in particular, the effects of the programme on employment, wages and incomes of the rural poor. It also considers its effect on overall growth of the economy.

The study finds that the MGNREGS, despite problems in implementation, has succeeded in providing substantial additional wage employment to the rural poor at a wage no lower than what prevails. It has thereby increased money incomes for this group of workers quite significantly. Yet, the programme has not made a significant contribution to reduction of rural poverty. The reason is food price inflation to which the programme has ended up contributing. While the MGNREGS increased the demand for food, this was not met by an increase in the supply of food in the short run.

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Introduction

In September 2005, India’s parliament enacted a remarkable piece of legislation – the National Rural Employment Guarantee Act (NREGA), later renamed Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The Act recognizes employment as an entitlement and defines an obligation for the government – the obligation to provide, in each year, 100 days of wage employment at a stipulated minimum wage to all rural households whose members are seeking or willing to do unskilled manual work. Employment scheme under MGNREGA – we shall henceforth refer to it as MGNREGS – was launched in 200 poorest districts during 2006-07 and extended to another 130 districts during 2007-08. Since 2008-09, MGNREGS has been implemented in all the 600-odd non-urban districts in the country.

Special wage employment schemes for rural areas, of course, are not new in India; a variety of such schemes has been implemented since 1960. What is new in MGNREGS is that implementation of a special wage employment scheme on a certain specified scale is now a binding obligation for the government. Thus MGNREGS represents, simultaneously, an explicit recognition by the government of its responsibility for ensuring availability of adequate employment for all workers and an explicit acknowledgement of the fact that the growth process in the country has been failing to generate adequate employment opportunities and will continue to do so in the foreseeable future.

The stated objectives of MGNREGS include not just creation of a social safety net for the vulnerable groups by creating a fall-back employment option but also stimulation of growth of the rural economy through a strengthening of the resource base in agriculture. So that the second of these objectives can be achieved, the Act specifies a list of permissible works that can be undertaken for the purpose of providing wage employment under MGNREGS. These include water conservation and harvesting, building of irrigation works and canals, renovation of traditional water bodies (e.g., de-silting of tanks), land development, flood control and protection works, and improvement of “rural connectivity” (i.e., building of all-weather roads within rural areas).

Whether and to what extent MGNREGS succeeds in stimulating growth of the rural economy remains to be seen. What is certain is that MGNREGS will have the effect of substantially increasing the money incomes of the rural poor. Thus one effect of MGNREGS, it might be thought, will be a decline in rural poverty. Another less obvious effect will be macroeconomic; the MGNREGS-induced growth of money incomes of the poor should alter the pattern of effective demand in the economy and could conceivably affect the pace of economic growth.

5 See Appendix 1 for the details.

6 The entitlement of 100 days of wage employment is for a rural household and can be shared by its adult working members. See Appendix 1.

7 There were, successively, Rural Manpower Programme, Crash Scheme for Rural Employment, Drought Prone Areas Programme, Food for Work Programme, National Rural Employment Programme, Rural Landless Employment Guarantee Programme, Jawahar Rozgar Yojana, Employment Assurance Scheme, Food for Work Programme II, Jawahar Gram Samridhi Yojana, and Sampoorna Grameen Rozgar Yojana.
There are two ways in which MGNREGS would increase money incomes of the rural poor. First, it would directly increase money incomes of workers from poor households in rural areas by generating additional wage incomes for them. Second, by substantially increasing the demand for casual labour as also by paying a stipulated minimum wage, MGNREGS could conceivably have the effect of increasing the wage for casual labour in rural areas in general and thus increase the incomes of the poor indirectly.

Certain caveats and qualifications to this story must be added, however. We know from past experience that, because of “leakage” (usurpation of funds by corrupt agents of implementation), actual transfers to the intended beneficiaries generally fall short of the expenditure incurred by the government. Also, an increase in the money wage rate for casual labour does not necessarily imply growth of non-MGNREGS wage incomes of casual labourers.\(^8\) And the workers employed under MGNREGS may have withdrawn from other jobs that they had previously been engaged in so that their income gains will be accompanied by income losses. Thus while it is safe to assume that money incomes of the poor will increase, it is more difficult to judge the extent of the increase.

It is also difficult to predict with any degree of confidence the extent to which increased money incomes of the rural poor will reduce poverty and influence growth. Growth of money incomes of the rural poor can be expected to increase mainly the demand for food – the wage good *par excellence*. To the extent that MGNREGS involves redistribution of incomes from the non-poor to the poor, therefore, the growth of effective demand for food can be expected to accelerate while the growth of effective demand for manufactures and services decelerates. So unless MGNREGS itself and/or other programmes and policies of the government can ensure adequate growth of food availability in the country, food prices will inevitably rise. This will prevent translation of increased money incomes of the rural poor into increased real incomes and could even slow down the pace of economic growth.\(^9\) In other words, there are circumstances under which the transfers to the rural poor delivered through MGNREGS would simply generate inflation without either reducing poverty or stimulating growth.

These theoretical possibilities underline the need for empirical investigations into the effects of MGNREGS on incomes and expenditure of the rural poor. This is the broad context within which this study seeks to find empirical answers to the following two questions: To what extent might MGNREGS increase money incomes of the rural poor? And how would increased money incomes in the hands of the rural poor affect the composition of demand in the economy? The answers to these two questions will allow us to ask and answer a big question: Is it reasonable and realistic to expect MGNREGS to reduce poverty and stimulate growth?

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\(^8\) For, increased wage could either reduce the demand for casual labour or increase the number of workers seeking casual employment. The effect of a rise in the wage rate is then offset by a decline in the level of employment. For a discussion of why wage growth does not necessarily result in income growth for casual labourers, see Ghose (2010).

\(^9\) If there is no acceleration in agricultural growth while there is deceleration in the growth of manufactures and services because of demand squeeze, overall growth will decelerate.
The paper proceeds as follows. The brief section that follows considers the database available for empirical explorations. The second section empirically examines the possibility of growth of money incomes of the rural poor because of MGNREGS. The third section considers the way in which the increased money incomes of the rural poor might affect rural poverty as also the pattern of aggregate demand in the economy. The final section brings together the arguments and findings to answer the big question.

The database

It has to be acknowledged that empirical investigation into the effects of MGNREGS on money incomes of the rural poor is presently made difficult by paucity of data. The scheme has been implemented on a nationwide scale only since 2008-09. As it happens, large-scale surveys of employment/unemployment and of consumption expenditure were conducted in 2009-10. Data from these surveys, when they become available, will make thorough explorations of the issues involved possible. Unfortunately, however, it will be quite some time before these data become available and this study must do without them.

Data on employment and wage incomes thus far generated by MGNREGS are available from the Ministry of Rural Development (MORD) – the Ministry responsible for implementation of the scheme. These data give us a good starting point for an analysis of the income effects of MGNREGS. However, they do suffer from a number of limitations. In the first place, they tell us what the government has tried to do rather than what it has succeeded in doing, for they do not give us any idea of the extent of “leakage”. Moreover, they also give us no information on changes in non-MGNREGS wages and wage incomes, and the magnitude and nature of employment foregone by the MGNREGS workers.

The inadequacy of information available from official sources has prompted us to conduct a small-scale sample survey (henceforth referred to as the IHD survey). Data from this survey help fill in some of the gaps in information and also help confirm or question the findings from MORD data. Admittedly, however, such a survey has its own limitations. Findings based on data generated by it do not really permit generalisations. Besides, these data only allow us to draw some qualitative conclusions about changes in non-MGNREGS wages and wage incomes and the nature of foregone employment. And it has proved difficult to generate any useful information on the extent of “leakage”. Thus precise estimates of income gains of the rural poor remain beyond our reach in this study.

For studying the effects of income gains of the rural poor on the pattern of consumption expenditure in the economy (and thus on the composition of demand), we have been obliged to rely on data from an older National Sample Survey of Consumer Expenditure that covers the period 2004-05 (since data from the more recent survey covering 2009-10 remain unavailable). It is perhaps safe to assume that, for a given level of expenditure, the pattern of expenditure in 2009-10 will not be radically different from that in 2004-05 so that use of data for 2004-05 does not introduce serious distortions on this account. But our reliance on data on consumption expenditure for just one period

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10 These are the latest rounds of the quinquennial National Sample Surveys of “Employment and Unemployment” and of “Consumer Expenditure”.

11 The survey was conducted by the Institute for Human Development (IHD), New Delhi in 2010. See Appendix 2 for a brief description.
imposes two limitations on the analysis. First, it means that we are using cross-section data to draw conclusions about change over time. Second, because the data relate to expenditure and not to income, we can only trace the demand effects of changes in expenditure and not of changes in incomes. For the rural poor, we can expect expenditures to equal incomes. For the non-poor, however, savings will be positive so that incomes will exceed expenditures.

While we recognize these limitations, we have no way of overcoming them. Comparable data on incomes are simply not available. And while it is possible to make inter-temporal comparisons (there exist comparable surveys covering past periods) of consumption, it is not easy to derive useful results from such comparisons. For, inter-temporal change in consumption incorporates both price and income effects (and possibly also changes in tastes and aspirations), and separating them requires econometric exercises that cannot be attempted here.

**MGNREGS and incomes of the rural poor**

The MGNREGS, modest in scale at the beginning in 2006-07, expanded quite rapidly and, by 2009-10, had become the largest ever special wage employment programme not just in India but in the world. In that later year, nearly 53 million rural households were reportedly provided with 2862 million days of wage employment under MGNREGS (table 1). And there is still a long way to go. For, an average rural household got only 54 days, instead of the promised 100 days, of employment in 2009-10, and just 13 percent of the rural households (who found employment under MGNREGS) actually got wage employment for 100 days. These aggregate figures, it should be noted, hide large variations in performance across states. In 2009-10, the average number of person days of MGNREGS employment per household varied from a minimum of 25 (Arunachal Pradesh) to a maximum of 95 (Mizoram).

The wage paid per day of employment also remained below the stipulated minimum wage of Rupees 100. If the obligation of the government defined by MGNREGA is to be fully met, therefore, considerable further expansion of MGNREGA will have to occur.

Despite the incomplete and deficient implementation, however, MGNREGS appears to have already brought very substantial gains in wage incomes for the poor households in rural areas. In 2009-10, for example, MGNREGS increased the combined wage income of poor households in rural India by as much as 22 per cent beyond what they would have otherwise earned.

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12 These aggregate figures, it should be noted, hide large variations in performance across states. In 2009-10, the average number of person days of MGNREGS employment per household varied from a minimum of 25 (Arunachal Pradesh) to a maximum of 95 (Mizoram).

13 There also was a great deal of variation in wage per day across the states; in 2009-10, it varied from minimum of Rs. 72 (Tamil Nadu) to a maximum of Rs. 151 (Haryana).
Table 1: MGNREGS and employment and wage incomes of rural households

<table>
<thead>
<tr>
<th></th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government expenditure on MGNREGS as % of GDP (in current prices)</td>
<td>0.22</td>
<td>0.35</td>
<td>0.53</td>
<td>0.65</td>
</tr>
<tr>
<td>Number (million) of households provided with employment under MGNREGS</td>
<td>21.0</td>
<td>33.9</td>
<td>45.1</td>
<td>52.6</td>
</tr>
<tr>
<td>Persondays of employment provided per household under MGNREGS</td>
<td>43.0</td>
<td>42.0</td>
<td>48.0</td>
<td>53.9</td>
</tr>
<tr>
<td>Number (million) of households provided with 100 days of employment under MGNREGS</td>
<td>6.5</td>
<td>7.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage (Rs.) paid per day of employment</td>
<td>65.0</td>
<td>75.0</td>
<td>84.1</td>
<td>90.2</td>
</tr>
<tr>
<td>Total wage income generated by MGNREGS (million Rs.)</td>
<td>58825</td>
<td>107692</td>
<td>182004</td>
<td>255793</td>
</tr>
<tr>
<td>Total wage income earned from employment in agriculture (million Rs.)</td>
<td>793600</td>
<td>908600</td>
<td>1030884</td>
<td>1152759</td>
</tr>
<tr>
<td>Increase (per cent) in wage income of rural households attributable to MGNREGS</td>
<td>7.4</td>
<td>11.8</td>
<td>17.7</td>
<td>22.2</td>
</tr>
</tbody>
</table>

Source: Author's estimates based on data available from MORD; Ministry of Statistics and Programme Implementation; and Planning Commission.

There is, of course, a question mark on the reliability of these estimates. In particular, we know that there is substantial “leakage” due to corruption but do not know the extent of it. Thus we do not know what percentage of the total amount reported to have been paid out as wages under MGNREGS has actually been received by the workers employed under it.

Besides, in estimating the “increase in wage income of rural households attributable to MGNREGS”, presented in table 1, a number of assumptions have been used: (i) that it is mainly the poor rural households that sought and got wage employment under MGNREGS, (ii) that the main non-MGNREGS wage employment of workers from these households is casual wage employment in agriculture, (iii) that the volume of non-MGNREGS wage employment in agriculture has not been affected by MGNREGS, and (iv) that the data on “compensation to employees in unorganised agriculture”, available from National Accounts Statistics, accurately measure the total wage income from casual wage employment in agriculture. Fortunately, these assumptions are perfectly reasonable and we shall see below some evidence that attest to their reasonableness.

14 ARC (2006), having analysed the implementation record of the special employment schemes of the past, concludes that substantial “leakage” was a common feature in all cases. It would be too much to expect that things will be radically different in the case of MGNREGS. Indeed, some small-scale surveys have already shown “leakage” to be quite significant in the case of MGNREGS. See, for example, Dreze and Khera (2009), which reports the results of a survey carried out in six states in 2008.
There is a fair amount of evidence to suggest that it is mainly the workers from poor rural households who seek wage employment under MGNREGS. Data from MORD show that workers from Scheduled Caste and Scheduled Tribe (henceforth SC/ST) households – known to be the poorest households in rural areas – form a majority of the workers employed under MGNREGS (even though they constitute a minority of the rural workers). The data from the IHD survey, presented in table 2, strongly corroborate this and also provide some additional evidence to show that it is indeed the poor who seek and get employment under MGNREGS. Thus the survey finds a large majority of the workers employed under MGNREGS to be from landless and marginal farmer households – the poorest households in rural areas. The proviso that MGNREGS would only provide unskilled manual work seems to have served its purpose of reaching the poor (through a process of self-selection) admirably well.

Table 2: Share (%) of poor rural workers in person days of wage employment generated by MGNREGS in six survey districts, 2010

<table>
<thead>
<tr>
<th>% share of</th>
<th>Koomool</th>
<th>Medak</th>
<th>Gaya</th>
<th>Purnia</th>
<th>Tonk</th>
<th>Udaipur</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC/ST workers</td>
<td>45.8</td>
<td>53.7</td>
<td>92.6</td>
<td>60.4</td>
<td>56.0</td>
<td>54.6</td>
</tr>
<tr>
<td>Workers from landless and marginal farmer households</td>
<td>67.9</td>
<td>72.9</td>
<td>99.6</td>
<td>99.6</td>
<td>80.1</td>
<td>93.7</td>
</tr>
</tbody>
</table>

Note: Marginal farmers are those who cannot derive even basic subsistence from cultivation because their landholdings are far too small. They therefore have to work as casual wage labourers for a part of the time. The actual size of landholding that can be considered as adequate for basic subsistence for a farm family naturally varies from region to region.

Source: Author’s estimates based on data from IHD Survey.

The assumption that the main non-MGNREGS wage employment of the workers employed under MGNREGS is casual wage employment in agriculture also seems to be well founded. Data from the IHD survey (table 3) show quite clearly that a large majority of the workers employed under MGNREGS usually work in agriculture, either as self-employed or as casual wage labourers. It is well known that many of the self-employed also work as casual wage labourers for some of the time just as many of the casual wage labourers work as self-employed for some of the time. Thus the principal source of wage income for both the self-employed and the casual wage labourers is casual wage employment in agriculture.

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15 These data show that workers from SC/ST households constituted 55 per cent of all workers employed under MGNREGS in 2008-09 and 51 per cent in 2009-10.

16 Dreze and Khera (2009) also find that “most of the NREGA workers belong to the most disadvantaged sections of society”.
Table 3: Percentage distribution of MGNREGS workers by type of their non-MGNREGS employment

<table>
<thead>
<tr>
<th></th>
<th>Kurnool</th>
<th>Medak</th>
<th>Gaya</th>
<th>Purnea</th>
<th>Tonk</th>
<th>Udaipur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casual labour in agriculture</td>
<td>74.0</td>
<td>98.3</td>
<td>60.3</td>
<td>77.8</td>
<td>29.2</td>
<td>30.8</td>
</tr>
<tr>
<td>Self-employment in agriculture</td>
<td>20.6</td>
<td>0.0</td>
<td>4.3</td>
<td>4.9</td>
<td>42.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Casual labour in non-agriculture</td>
<td>2.2</td>
<td>1.3</td>
<td>20.3</td>
<td>6.2</td>
<td>10.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Self-employment in non-agriculture</td>
<td>1.3</td>
<td>0.0</td>
<td>2.2</td>
<td>1.3</td>
<td>7.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Wage work away from home</td>
<td>0.0</td>
<td>0.0</td>
<td>12.5</td>
<td>9.3</td>
<td>2.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Others</td>
<td>1.9</td>
<td>0.4</td>
<td>0.4</td>
<td>0.5</td>
<td>7.5</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Author's estimates based on data from IHD Survey

The data in table 3, it should be noted, cast some doubt on the validity of our third assumption. For, they hint at the possibility that availability of wage employment under MGNREGS may have been associated with reduced employment in agriculture and/or reduced migration for work. These effects of MGNREGS, if they are there, are not undesirable as such; reduction of engagement in work that brings poor remuneration and involves distress migration is a perfectly desirable outcome. Their significance in the present context lies in the fact that, against the gain in wage income from MGNREGS, there may also be some loss in wage income because of reduced wage employment in non-MGNREGS activities.

That MGNREGS has induced reduction of wage employment in non-MGNREGS activities seems to be confirmed by the data presented in table 4. Most of the workers employed under MGNREGS in four of the six districts surveyed report that availability of employment under MGNREGS has reduced both the non-MGNREGS employment locally as well as the extent of temporary out-migration of workers in search of employment.\(^{17}\) The exceptions are the survey districts located in Bihar, which happens to have a very poor record of implementation of MGNREGS (table 5). The number of person days of employment generated under MGNREGS has been very low in Bihar generally and in the survey districts in particular. It is not particularly surprising, therefore, that MGNREGS has not had much of an impact on either the labour supply in non-MGNREGS activities or on the extent of temporary migration for work.

Table 4: MGNREGS and labour supply in non-MGNREGS activities

<table>
<thead>
<tr>
<th></th>
<th>Kurnool</th>
<th>Medak</th>
<th>Gaya</th>
<th>Purnea</th>
<th>Tonk</th>
<th>Udaipur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour supply in non-MGNREGS activities has declined</td>
<td>100.0</td>
<td>100.0</td>
<td>12.5</td>
<td>50.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Migration in search of work has declined</td>
<td>100.0</td>
<td>100.0</td>
<td>18.7</td>
<td>31.2</td>
<td>75.0</td>
<td>80.0</td>
</tr>
</tbody>
</table>

Source: Author's estimates based on data from IHD Survey

\(^{17}\) Other surveys, e.g., Dreze and Khera (2009) have also found MGNREGS to have reduced temporary migration for work.
Table 5: Average number of days of employment per household generated under MGNREGS

<table>
<thead>
<tr>
<th></th>
<th>Number of days</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MORD data</strong></td>
<td></td>
</tr>
<tr>
<td>Andhra Pradesh, 2009-10</td>
<td>65.7</td>
</tr>
<tr>
<td>Bihar, 2009-10</td>
<td>27.5</td>
</tr>
<tr>
<td>Rajasthan, 2009-10</td>
<td>69.0</td>
</tr>
<tr>
<td><strong>Survey data</strong></td>
<td></td>
</tr>
<tr>
<td>Koomool, Andhra Pradesh, 2010</td>
<td>72.0</td>
</tr>
<tr>
<td>Medak, Andhra Pradesh, 2010</td>
<td>47.0</td>
</tr>
<tr>
<td>Gaya, Bihar, 2010</td>
<td>18.5</td>
</tr>
<tr>
<td>Purnea, Bihar, 2010</td>
<td>12.0</td>
</tr>
<tr>
<td>Tonk, Rajasthan, 2010</td>
<td>48.3</td>
</tr>
<tr>
<td>Udaipur, Rajasthan, 2010</td>
<td>41.0</td>
</tr>
</tbody>
</table>

Source: Author’s estimates based on data from MORD and from IHD Survey

The evidence examined thus far seems to suggest that the observed gain in wage income of the poor rural households is not a net gain. The net gain, of course, must be positive since otherwise the workers would have preferred to stay in their earlier jobs. But the net gain may be a fraction of the observed gain and we are not in a position to know the value of this fraction.

Happily, however, there are some good reasons to believe that the value of the fraction may well be unity. There is some evidence to suggest that MGNREGS has induced an increase in wages for casual labour in non-MGNREGS activities. In the IHD survey, most of the workers employed under MGNREGS, when asked if wages have increased as a result of implementation of MGNREGS, answer in the affirmative. Yet, the same workers also say that it is not the level of wage paid for work under MGNREGS that induces them to seek employment under MGNREGS (table 6). Most workers choose to take employment under MGNREGS basically because it brings substantial wage earning opportunities to their own localities where such opportunities are otherwise inadequate. It seems, therefore, that to the extent that MGNREGS induces wage increases in rural areas, it does so not because it pays a higher than prevailing wage but because it reduces labour availability in non-MGNREGS activities. To the extent that this is true, the reduction in non-MGNREGS employment need not imply a reduction in wage income. Reduced employment, together with increased wage rates, may well mean a negligible change in wage income from non-MGNREGS employment. Thus even our third assumption – the one most open to doubt – turns out to be perfectly reasonable.

18 Dreze and Khera (2009) also found evidence of MGNREGS-induced rise in wages of casual labour in non-MGNREGS activities.
Table 6: Percentage distribution of MGNREGS workers by reason for preferring employment under MGNREGS

<table>
<thead>
<tr>
<th>Reason</th>
<th>Kurnool</th>
<th>Medak</th>
<th>Gaya</th>
<th>Purnea</th>
<th>Tonk</th>
<th>Udaipur</th>
</tr>
</thead>
<tbody>
<tr>
<td>MGNREGS provides primary wage earning opportunity</td>
<td>100.0</td>
<td>70.5</td>
<td>36.9</td>
<td>43.1</td>
<td>88.2</td>
<td>79.4</td>
</tr>
<tr>
<td>Employment under MGNREGS available at doorstep</td>
<td>0.0</td>
<td>0.0</td>
<td>42.4</td>
<td>41.1</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>MGNREGS pay higher wage</td>
<td>0.0</td>
<td>7.4</td>
<td>3.5</td>
<td>2.1</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Other reasons</td>
<td>0.0</td>
<td>22.1</td>
<td>17.2</td>
<td>13.7</td>
<td>10.6</td>
<td>20.2</td>
</tr>
</tbody>
</table>

Source: Author's estimates based on data from IHD Survey

Our fourth assumption also seems perfectly reasonable in light of what we know about employment in rural areas. In 2004-05, 76 per cent of all rural workers worked in unorganised agriculture either as self-employed or as casual labourers and they were poorer than those working in non-agriculture. Thus “compensation to employees in unorganised agriculture” can reasonably be seen as the wage income accruing to the poorest sections of the rural workers. We also know that regular wage employment is virtually non-existent in unorganised agriculture (which accounts for more than 99 per cent of total employment in agriculture) so that it is broadly correct to suppose the “compensation to employees in unorganised agriculture” to be equivalent to income from casual wage employment outside MGNREGS.

What remains wholly unknown, of course, is the extent of “leakage”. In so far as the “leakage” is significant, the estimates of “increase in wage income of rural households attributable to MGNREGS” are overestimates. Nevertheless, our judgement is that the income gain for poor rural households would remain quite substantial in many parts of the country even if we were able to make appropriate deductions.

Some basis for this judgement is provided by the evidence produced by the IHD Survey (table 7). In four of the six survey districts, wage incomes from employment under MGNREGS are found to have constituted, in 2010, a large proportion of total incomes of poor rural households. This by itself suggests the income gains of these households to have been substantial. For, arguably, had the possibility of income gain been only marginal, wage incomes from employment under MGNREGS would not have become so large a proportion of total incomes for these households. In the Survey districts of Bihar, where the record of implementation of MGNREGS has been very poor, the possibility of income gain was clearly marginal and this shows up in the very low share of wage incomes from employment under MGNREGS in total incomes of poor rural households. On the other hand, “income from wage employment away from home” constitutes a large proportion of the total income of MGNREGS workers in Bihar districts; temporary migration for work remains important. Thus there clearly are cases where MGNREGS is yet to have an impact.

\[19\]: This is author’s estimate based on data available from the 61\textsuperscript{st} Round of the National Sample Survey of Employment and Unemployment.
on the incomes of the rural poor, but such cases are less numerous than cases where it has brought favourable changes for them.

Table 7: Percentage distribution of incomes of MGNREGS households by source

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Kumool</th>
<th>Medak</th>
<th>Gaya</th>
<th>Purnea</th>
<th>Tonk</th>
<th>Udaipur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from employment under MGNREGS</td>
<td>47.7</td>
<td>47.3</td>
<td>4.0</td>
<td>1.7</td>
<td>16.5</td>
<td>15.0</td>
</tr>
<tr>
<td>Income from employment under other public works</td>
<td>0.0</td>
<td>0.0</td>
<td>0.8</td>
<td>2.0</td>
<td>9.3</td>
<td>6.6</td>
</tr>
<tr>
<td>programmes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from employment in agriculture (local)</td>
<td>31.3</td>
<td>45.9</td>
<td>38.8</td>
<td>38.1</td>
<td>36.0</td>
<td>34.4</td>
</tr>
<tr>
<td>Income from employment in non-agriculture (local)</td>
<td>18.1</td>
<td>6.0</td>
<td>33.9</td>
<td>29.4</td>
<td>29.4</td>
<td>36.9</td>
</tr>
<tr>
<td>Income from wage employment away from home</td>
<td>2.9</td>
<td>0.8</td>
<td>22.5</td>
<td>28.8</td>
<td>8.8</td>
<td>7.1</td>
</tr>
</tbody>
</table>

Source: Author's estimates based on data from IHD Survey

We conclude that MGNREGS, even though it still remains to be undertaken on the stipulated scale and despite the considerable deficiencies of implementation, has already generated substantial gains in money incomes for poor rural households in many parts of India. And as the scale of MGNREGS is increased toward the stipulated level, the gains in money incomes will correspondingly increase, though the uneven spread across regions can be expected to persist for a while.

MGNREGS, poverty and economic growth

If we assume that growth of money incomes of the poor, attributable to MGNREGS, occurs in a context of stable prices and unaltered distribution of income among the poor, then, from a scrutiny of the available data on consumption expenditure, it is possible to get a first view of how MGNREGS might reduce rural poverty. The results of some thought experiments, based on the data on consumption expenditure of the rural population for the year 2004-05, are shown in table 8. These illustrate the manner in which the growth of average per capita expenditure of the rural poor would lower the incidence of rural poverty under our assumptions. The method used to derive these estimates is as follows. We first use the unit-level data on consumer expenditure of the rural population (from the 61st Round of the National Sample Survey of consumer expenditure) to arrange individuals in ascending order of expenditure per capita per month. We then organise them into percentile groups and estimate the average expenditure per capita per month for each of the percentile groups. From this, it is easy to identify the percentile group the average per capita expenditure of which matches the poverty line. Thus the bottom 42 per cent of the rural population is identified as the group of rural poor and the average per capita expenditure for this group is estimated. We then consider increases of the average per capita expenditure of each percentile group at uniform rates (this ensures stable distribution) – by 5 per cent, 10 per cent, 15 per cent, 20 per cent and 25 per cent – thus deriving new percentile distributions. For each of the new percentile distributions, we can redefine the group of rural poor by identifying the percentile group the average per capita expenditure of which matches the poverty line.

The estimates in table 8 suggest that, if our assumptions of stable prices and unaltered distribution among the poor were valid, MGNREGS should already have reduced poverty
very substantially. Let us recall our earlier observation that MGNREGS may have increased the combined wage income of the rural poor by around 20 per cent in 2009-10 and hence should have reduced the incidence of rural poverty by anywhere between 12 and 16 percentage points in that year alone.

**Table 8: How the growth of average per capita expenditure of the rural poor might reduce the incidence of rural poverty if the distributional inequality among the poor as well as prices remain unchanged**

<table>
<thead>
<tr>
<th>Level of average per capita expenditure</th>
<th>Incidence of poverty (%)</th>
<th>Decline in poverty (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual level in 2004-05</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>5% higher than the 2004-05 level</td>
<td>38</td>
<td>4</td>
</tr>
<tr>
<td>10% higher than the 2004-05 level</td>
<td>34</td>
<td>8</td>
</tr>
<tr>
<td>15% higher than the 2004-05 level</td>
<td>30</td>
<td>12</td>
</tr>
<tr>
<td>20% higher than the 2004-05 level</td>
<td>26</td>
<td>16</td>
</tr>
<tr>
<td>25% higher than the 2004-05 level</td>
<td>23</td>
<td>19</td>
</tr>
</tbody>
</table>

Note: The poverty line used is a level of expenditure of Rs. 446.7 per capita per month. This is the poverty line most recently defined by a special Committee set up by the Planning Commission. See Planning Commission (2009).

Source: Author's estimates based on data from the 61st Round of the National Sample Survey of Consumer Expenditure.

Whether and how MGNREGS might have altered the distribution of income among the poor is impossible to know at this stage. But prices, we know, did not remain stable. In fact, food prices rose very sharply in 2009-10; the wholesale price index for “food articles” rose by more than 15 per cent. So the actual reduction of poverty must obviously have been very much lower than what is indicated by the growth of money incomes of the poor brought about by MGNREGS.

Is it possible that the rise in food prices was caused, at least in part, by the growth of money incomes of the rural poor brought about by MGNREGS? We can be fairly certain (thanks to the well established Engel’s Law) that, compared to the non-poor, the poor would spend a larger proportion of their incremental income on food. Thus a given amount of incremental income would generate a higher growth of demand for food if it goes to the poor than if it goes to the non-poor. Correspondingly, a given amount of incremental

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20 The source of data on wholesale prices is the Central Statistical Office, Ministry of Statistics and Programme Implementation, Government of India. “Food articles” include “cereals and pulses”, “fruits and vegetables”, “eggs, fish and meat”, and “condiments and spices”. The rate of price rise in 2009-10 was 14.5 per cent for “cereals and pulses”, 9.6 per cent for “fruits and vegetables”, and 20.8 per cent for “eggs, fish and meat” as well as for “condiments and spices”. All of these items, it might be noted, are products of agriculture.
income would generate a lower growth of demand for manufactures and services if it goes to the poor than if it goes to the non-poor. On the supply side, it can be said that the supply of manufactures and services can in general be increased much more easily than the supply of food.\textsuperscript{21} Thus, on the whole, a given amount of incremental income is likely to increase food prices more if it goes to the poor than if it goes to the well-off. To the extent that MGNREGS involves redistribution of incomes from the non-poor to the poor, therefore, it is reasonable to think that MGNREGS contributed to the rise in food prices.

Table 9 presents some estimates of consumption expenditure and its distribution across consumption items. Three expenditure groups are considered – bottom 42 per cent, middle 42 per cent and top 16 per cent; we can think of these groups as the poor, the well-off and the rich. Consumption items are also classified into three broad groups – food, manufactures and services. The details of classification are given in Appendix 3. Here we note that the group “food”, as defined here, consists entirely of agricultural products; manufactured food items are included in manufactures.

<table>
<thead>
<tr>
<th>Expenditure group</th>
<th>Food</th>
<th>Manufactures</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 42 per cent</td>
<td>158.89</td>
<td>167.84</td>
<td>17.69</td>
<td>344.22</td>
</tr>
<tr>
<td>Middle 42 per cent</td>
<td>247.77</td>
<td>288.62</td>
<td>41.81</td>
<td>578.20</td>
</tr>
<tr>
<td>Top 16 per cent</td>
<td>380.88</td>
<td>669.14</td>
<td>148.68</td>
<td>1198.69</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 42 per cent</td>
</tr>
<tr>
<td>Middle 42 per cent</td>
</tr>
<tr>
<td>Top 16 per cent</td>
</tr>
</tbody>
</table>

Note: For details of the items included under "food", "manufactures" and "services", see Appendix 3. Source: Author's estimates based on data available from the 61st Round of National Sample Survey of Consumer Expenditure.

The method used to derive the estimates (presented in table 9) involves, once again, derivation (by using the unit-level data from the 61\textsuperscript{st} Round of the National Sample Survey of Consumer Expenditure) of average per capita expenditures on each of the three categories of consumption items – food, manufactures and services – for each of the

\textsuperscript{21} In manufacturing and services, excess capacity typically exists. Also capacity in these sectors can be stretched up to a point fairly easily. In agriculture (which produces food), on the other hand, output cannot be increased speedily because neither land under cultivation nor land productivity can be speedily adjusted.
percentile groups of rural population (arranged in ascending order of per capita expenditure). From these, we derive the averages for the three expenditure groups – bottom 42 per cent (the poor), middle 42 per cent (the well-off) and top 16 per cent (the rich).

The figures in table 9 clearly show the Engel’s Law at work. The share of food in total expenditure declines as the level of total expenditure rises. Correspondingly, the shares of manufactures and services in total expenditure rise as the level of total expenditure rises. Somewhat surprisingly, the share of food in total expenditure is high (32 per cent) even for the rich and the share of manufactures in total expenditure is high even for the poor, but this is no place to dwell on the factors that underlie these features.

The estimates presented in table 10 illustrate the differential effects of a given increase in expenditure of the poor vis-à-vis that in expenditure of the well-off. The method used to derive these estimates is as follows. We have, to begin with, the total per capita expenditure as well as the per capita expenditures on the three categories of consumption items (food, manufactures and services) for each of the percentile groups of rural population arranged in ascending order of per capita consumption. Using these, average per capita expenditures of the rural poor (the bottom 42 per cent) and of the rural well-off (the middle 42 per cent) are estimated. We make life simple by assuming stable distribution of income within each expenditure group. We then estimate – for the rural poor, i.e., the bottom 42 per cent – the levels of average per capita expenditure resulting from growth of per capita expenditure at different rates – at 5 per cent, 10 per cent, 15 per cent, 20 per cent and 25 per cent. For each of these higher levels of per capita expenditure, we find the matching percentile group and thus get the per capita expenditures on food, manufactures and services. We can also estimate from the above the absolute increase in per capita expenditure of the poor for each rate of increase. These values are used to augment the average per capita expenditure of the well-off – the comparator group - and the corresponding expenditures on food, manufactures and services are then found.

---

22 The size of the group of the well-off is deliberately made equal to the size of the group of poor as this facilitates comparison.
Table 10: Effects of increased expenditure by groups of rural population on demand for consumption items

<table>
<thead>
<tr>
<th>Increment in per capita expenditure</th>
<th>Total (Rupees)</th>
<th>% increase over base</th>
<th>Food (Rupees)</th>
<th>Manufactures (Rupees)</th>
<th>Services (Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The poor</td>
<td>17.21</td>
<td>5</td>
<td>4.89</td>
<td>9.95</td>
<td>2.37</td>
</tr>
<tr>
<td>The well-off</td>
<td>17.21</td>
<td>3</td>
<td>4.19</td>
<td>11.50</td>
<td>1.52</td>
</tr>
<tr>
<td>The poor</td>
<td>34.42</td>
<td>10</td>
<td>10.11</td>
<td>20.41</td>
<td>3.90</td>
</tr>
<tr>
<td>The well-off</td>
<td>34.42</td>
<td>5.9</td>
<td>11.07</td>
<td>20.56</td>
<td>2.79</td>
</tr>
<tr>
<td>The poor</td>
<td>51.63</td>
<td>15</td>
<td>18.87</td>
<td>28.88</td>
<td>3.88</td>
</tr>
<tr>
<td>The well-off</td>
<td>51.63</td>
<td>8.9</td>
<td>15.69</td>
<td>30.00</td>
<td>5.96</td>
</tr>
<tr>
<td>The poor</td>
<td>68.84</td>
<td>20</td>
<td>25.68</td>
<td>35.42</td>
<td>7.74</td>
</tr>
<tr>
<td>The well-off</td>
<td>68.84</td>
<td>11.9</td>
<td>21.61</td>
<td>37.58</td>
<td>9.66</td>
</tr>
<tr>
<td>The poor</td>
<td>86.05</td>
<td>25</td>
<td>33.17</td>
<td>44.16</td>
<td>8.72</td>
</tr>
<tr>
<td>The well-off</td>
<td>86.05</td>
<td>14.9</td>
<td>23.65</td>
<td>50.68</td>
<td>11.72</td>
</tr>
</tbody>
</table>

Note: The poor refer to bottom 42% while the well-off refer to middle 42%.

Source: Author's estimates based on data from the 61st Round (2004-05) of the National Sample Survey of Consumer Expenditure.

A striking fact that emerges is that, for moderate increases in money income, the changes in demand for different groups of consumption items are roughly the same irrespective of whether the incremental income goes to the poor or to the well-off. Thus, for example, the increased demand for food resulting from an incremental income of Rs. 34 would be the same irrespective of whether the incremental income has accrued to the poor or to the well-off. It seems, therefore, that if MGNREGS involves only moderate redistribution of income from the well-off to the poor and (correspondingly) increases the money income of the poor only moderately, MGNREGS would not contribute to food price inflation.\(^23\) It is only when the increase in money income is large that the pattern of change in demand depends, in the theoretically expected manner, on whether the incremental income has accrued to the poor or to the well-off. Thus the increased demand for food resulting from an incremental income of Rs. 86 would be substantially higher if the incremental income accrues to the poor than if it accrues to the well-off.

From this evidence, it would appear that MGNREGS, in so far as it has involved redistribution of income from the well-off to the poor and has delivered a fairly large increase in money income to the rural poor, has indeed contributed to food price inflation.

\(^23\) This is only an observation, not a recommendation. But it suggests the intriguing possibility that a moderate increase in money incomes of the rural poor may actually reduce poverty more than a large increase.
And the food price inflation, in turn, has robbed MGNREGS of much of its potential for poverty reduction.

At first sight, MGNREGS also appears to have restrained the growth of demand for manufactures and services. In so far as MGNREGS involved redistribution of income from the well-off to the poor, it directly restrained the growth of demand for manufactures and services. And in so far as it contributed to food price inflation, it further restrained growth of demand for manufactures and services by forcing a reallocation of expenditure in favour of food (required to protect the level of food consumption). It would seem, then, that if MGNREGS contributed to food price inflation, it must also have contributed to a slowdown in the pace of economic growth. For while the accelerated growth of demand for food did not lead to accelerated growth of agricultural output, the decelerated growth of demand for manufactures and services can be expected to have caused a slowdown in the growth of output of these sectors.

But such an outcome is not in fact inevitable. To the extent that MGNREGS involved redistribution, it involved redistribution mainly from the well-off in non-agriculture to the poor in agriculture (the well-off in agriculture do not pay much taxes). And food price inflation squeezed the consumption of only the net purchasers of food – the rural poor and the non-agricultural population – while it actually delivered income gains to the surplus farmers, i.e., the rural well-off. So the growth of the surplus farmers’ demand for manufactures and services should have accelerated.

Thus MGNREGS can be said to have generated two contradictory effects on the growth of demand for manufactures and services – acceleration in the case of the well-off in agriculture and deceleration in the case of the well-off in non-agriculture. The overall effect is ambiguous but is unlikely to have been very significant. We may thus conclude that MGNREGS contributed to food price inflation but had no significant effect on the pace of economic growth.

What seems puzzling in all this is that the government has not used the large stock of foodgrains it holds to check food price inflation. That a scheme such as MGNREGS would put pressure on food prices was not difficult to anticipate. And that this pressure would not be countered in the short run by increased food production was not difficult to realise. Yet the government was actually building up stock in 2009-10 rather than using the accumulated stock to put downward pressure on food prices. The clue to this puzzle seems to lie in the deeply flawed system of procurement / public distribution that is

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24 To avoid misunderstanding, it should be said that what is being argued is not that food price inflation would not have happened had there been no MGNREGS but that it would have been somewhat lower.


26 Bhaduri (2005) saw a scheme offering “wage employment opportunities to all at a legally stipulated minimum wage” as only a first step toward full employment in India, as he fully recognized that sustaining full employment in the longer run required expansion of productive capacity of the economy. In the short run, he argued, the stock of food grains held by the government could be used to meet the increased demand for food resulting from increased wage employment of the poor.
currently in operation.\textsuperscript{27} Having failed to do much about the food price inflation, the government has just announced full indexation of the minimum wage paid under MGNREGS. This, however, offers no solution to the problem. In the absence of increased availability of food, such a measure is far more likely to generate spiralling food price inflation than to protect the income gains of the poor.

So far we have been discussing the short-run effects of MGNREGS. In the longer run, the effect of MGNREGS on food production will be of critical importance. This is where the list of works, permitted to be carried out under MGNREGS, assumes significance. As noted earlier, this list does reflect recognition of the need to ensure that MGNREGS contributes to growth of agricultural production through enhancement of land productivity. If the works actually carried out have followed the specified norms, food production should increase in the longer run. Increased food production will then lower food price inflation so that MGNREGS will be effective not just in reducing poverty but also in stimulating economic growth. Growth of food production will mean accelerated agricultural growth and lower food price inflation will mean accelerated growth of overall demand for manufactures and services and hence accelerated growth of manufactures and services. Accelerated growth of this kind will also generate productive employment and MGNREGS will have set the economy on a path toward sustainable full employment.

There is evidence to suggest that most of the works carried out under MGNREGS are indeed those that ought to enhance land productivity. According to information available from the MORD, more than 82 per cent of the expenditure on the works completed under MGNREGS in 2009-10 was on projects designed to increase land productivity (table 11). The IHD Survey also produces evidence to show that bulk of the expenditure was indeed incurred on works that should increase land productivity (table 12). However, there is much doubt about the quality and durability of the assets created under MGNREGS. The Planning Commission, on a review of the implementation of the programme, has expressed serious concern about the poor quality of the works undertaken thus far.\textsuperscript{28} Some small-scale field surveys have also found the quality of the assets created through MGNREGS to be generally poor.\textsuperscript{29} And there really are no surprises here. For, the past experience with rural works programmes has shown that creation and renovation of productive assets through schemes whose primary objective is to generate wage employment for unskilled labour is extremely difficult, particularly so in a situation where productive assets are privately and unequally held.\textsuperscript{30}

\textsuperscript{27} See Basu (2011) for a discussion.

\textsuperscript{28} See Planning Commission (2010).

\textsuperscript{29} See, for example, Dreze and Khera (2009).

\textsuperscript{30} ARC (2006), having reviewed the past experience of implementation of special employment schemes, draws the following conclusion: “These programmes created income for the rural poor but left very few durable assets.” (p. 7)
Table 11: Asset creation under MGNREGS – 1

<table>
<thead>
<tr>
<th>Works completed under MGNREGS</th>
<th>Percentage of expenditure 2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>For enhancement of land productivity</td>
<td>80.1</td>
<td>82.3</td>
</tr>
<tr>
<td>For construction/renovation of rural roads</td>
<td>18.5</td>
<td>15.7</td>
</tr>
<tr>
<td>Others</td>
<td>1.4</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Note: Works meant to increase land productivity include "flood control and protection", "water conservation and harvesting", "drought proofing", "irrigation works", "renovation of traditional water bodies" and "land development". Others include afforestation.

Source: Author's estimates based on data available from MORD.

Table 12: Asset creation under MGNREGS – 2

<table>
<thead>
<tr>
<th>Works completed under MGNREGS in 2009-10</th>
<th>Percentage of expenditure on MGNREGS</th>
<th>Koornool</th>
<th>Medak</th>
<th>Gaya</th>
<th>Purnea</th>
<th>Tonk</th>
<th>Udaipur</th>
</tr>
</thead>
<tbody>
<tr>
<td>For enhancement of land productivity</td>
<td>85.4</td>
<td>98.8</td>
<td>85.1</td>
<td>73.6</td>
<td>62.6</td>
<td>30.4</td>
<td></td>
</tr>
<tr>
<td>For construction/improvement of village roads</td>
<td>14.6</td>
<td>1.2</td>
<td>3.8</td>
<td>26.4</td>
<td>36.1</td>
<td>63.6</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>0.0</td>
<td>0.0</td>
<td>11.1</td>
<td>0.0</td>
<td>1.3</td>
<td>6.0</td>
<td></td>
</tr>
</tbody>
</table>

Notes: As in table 4.

Source: Author's estimates based on data from the IHD Survey.

It does not appear very likely, therefore, that MGNREGS will contribute significantly to the growth of land productivity even in the longer run. Indeed, we should recognize that there is inherent tension between the objective of delivering income gains to the poor and that of creating / renovating productive assets for promoting agricultural growth. Given that land is privately owned, it is not easy to create many publicly owned assets that can enhance land productivity. If agricultural growth is to be stimulated, public works have to create assets that become privately owned and even the publicly owned assets cannot but benefit private landowners. And these benefits can only vary directly with the size of landholding. All this seems highly inequitable and this makes creation of useful assets through special employment schemes a politically difficult undertaking. Besides, given the objective of employment generation, much of the spending on MGNREGS has to be set aside for payment of wages to unskilled workers, but this is not always the best arrangement for asset creation.

So MGNREGS is and will remain, principally, a programme through which transfers are delivered to the rural poor. As the scale of the programme is gradually expanded to its promised level, then, the problem of food price inflation could well become increasingly serious and persistent. And persistently high food price inflation will not only render the programme ineffective in reducing rural poverty but will also undermine the overall growth process. For, food price inflation reduces the real wage of non-agricultural workers who can be compensated only by increasing the product wage in manufacturing and
services sectors. The consequence is likely to be a fall in the level of investment in the economy.

**Concluding observations**

MGNREGS is an impressively ambitious programme for providing wage employment to the rural poor. Even though it still has a long way to go to reach its stipulated scale and its implementation has been far from perfect, it has already succeeded in providing very substantial additional wage employment at a wage no lower than the prevailing wage to the rural poor. The result has been impressive growth of money incomes for this group.

Nevertheless, MGNREGS has not had the expected effect of significantly reducing rural poverty basically because it contributed to food price inflation. To the extent that it involved redistribution of income from the non-poor to the poor and to the extent that it delivered a large increase in money income to the poor, it led to accelerated growth of demand for food. As the government failed to introduce measures to commensurably augment the supply of food in the short run, food price inflation was unavoidable. And food price inflation ensured that the increase in real income of the poor was much less than the increase in money income.

Though a final judgement must await availability of more information, it is hard to avoid the conclusion that MGNREGS by itself cannot really be expected to stimulate agricultural growth even in the longer run. Creation of productive assets under a programme of this kind in a situation where land is privately and unequally held is inherently difficult. And deficiencies in implementation ensures that whatever assets are created are of poor quality and durability. All this means that as the scale of MGNREGS is expanded, it will deliver increasingly larger increases in money income to the poor without correspondingly contributing to agricultural growth. Food price inflation may then become a persistent problem, which will undermine both poverty alleviation and economic growth.

If MGNREGS is to alleviate poverty, stimulate growth and promote full employment, two things have to happen. In the short run, the government must find a way of using the accumulated stock of foodgrains it holds to curb food price inflation. Alongside, the government must also undertake to increase public investment in agriculture so that food production can grow in the longer run to match the growth in demand.


Appendix 1

MGNREGS: Salient features

- The scheme is designed to guarantee 100 days of wage employment per year for all rural households who are seeking or willing to do manual work. The guarantee is for a household and not for a worker; the 100 days of wage employment can be shared by the adult working members of a household.

- There already exists an Act – the Minimum Wages Act of 1948 – under which minimum daily wages for unskilled agricultural labourers are fixed by the state governments. These are the wages to be paid for work under MGNREGS unless the central government stipulates a minimum wage specifically for the scheme. As a matter of fact, by 2009-10, the Central Government had stipulated a minimum wage of Rupees 100 per day for employment under MGNREGS. The Central Government has now also announced that this minimum wage will henceforth be fully indexed.

- Wages must be paid within 15 days of the date on which the work was done.

- Men and women must be paid equal wages.

- Employment is to be provided to a claimant within 15 days of his/her asking for it. If, for some reason, the relevant authorities fail to provide employment within this period, the claimant will be entitled to an unemployment allowance amounting to 25 per cent of the minimum wage for the first thirty days and 50 per cent thereafter.

- Work is normally to be provided to a claimant within a 5 km radius of his/her village. If work can only be provided beyond a 5 km radius, the wage paid should be higher than the stipulated minimum wage by 10 per cent.

- At least one-third of those provided with employment should be women.

- Facilities such as crèche, first aid, drinking water and shade are to be provided at each worksite.

- Only certain kinds of work can be organized for the purpose of providing employment under MGNREGS. These include: water conservation and harvesting, drought proofing, afforestation, minor irrigation, flood control and protection, renovation of traditional water bodies including de-silting of tanks, land development and construction/renovation of village roads. Maintenance of assets created under MGNREGS is also to be considered permissible work.

- In works taken up under MGNREGS, spending on wages for unskilled manual labour should constitute at least 60 per cent of total spending. The other 40 per cent can be spent on materials and wages of skilled and semi-skilled labour. No machinery is to be used.

- Transparency is to be ensured by establishing social audit and grievance redressal mechanism as also by making all accounts and records available for public scrutiny on demand.

- The Central Government is to bear the full cost of wages for unskilled labour and 75 per cent of the cost of materials and wages of skilled and semi-skilled labour. The State Governments are to bear 25 per cent of the cost of materials and wages of skilled and semi-skilled labour and the full cost of unemployment allowance.

- An annual report on the outcomes of MGNREGS is to be presented to the Parliament by the Central Government. Similar reports are to be presented in State Legislatures by the State Governments.
Appendix 2

The IHD Survey

The Institute for Human Development (IHD) conducted a small-scale field survey of the working of MGNREGS in 2010. The survey covered three states: Andhra Pradesh, Bihar and Rajasthan. From each of the three states, two districts – one relatively developed and the other relatively backward – were purposively selected. The districts are: Koorool and Medak in Andhra Pradesh; Purnea and Gaya in Bihar; and Tonk and Udaipur in Rajasthan. From each of the six selected districts, two Blocks (a Block is composed of a cluster of villages that represents the lowest tier of government administration and the second tier of Panchayati Raj institutions) – one relatively developed and one relatively backward – were purposively selected. From each of the Blocks, two villages – in which MGNREGS was under implementation – were purposively selected. From each of the villages, 20 households were randomly selected from a list of households working under MGNREGS. Thus 80 households from each of the six districts were selected for the survey.

Apart from the households, the selected villages and the worksites in them were also surveyed both to gather additional information and to check the reliability of the information gathered through the survey of households.
Appendix 3

Grouping of consumption items

**Food**: cereals; cereal substitutes; pulses and pulse products; vegetables; milk and milk products; egg, fish and meat; fruits; spices and condiments

**Manufactures**: edible oil; sugar; salt; beverages; tobacco; intoxicants; fuel and light; clothing; bedding, etc.; footwear; crockery and utensils; cooking and household appliances; books, journals, newspapers and periodicals; stationary; medicines; sports goods, toys, etc.; goods for recreation and hobbies; goods for personal care and effects; toilet articles; sundry articles; petrol, diesel and lubricating oil; furniture and fixtures; jewellery and ornaments; personal transport equipment; therapeutic appliances; other personal goods; residential building, land and other durables

**Services**: education services (institutional and non-institutional), medical care (institutional and non-institutional); rent; entertainment; conveyance; consumer services excluding conveyance; consumer taxes and cesses.
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