Employment Guarantee for Rural India

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A report of a round-table discussion held in Mumbai in November on the proposed employment guarantee programme.

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The Indira Gandhi Institute of Development Research (IGIDR) organised a one-day round table on Employment Guarantee for Rural India on November 6, 2004 against the background of the proposed enactment of an Employment Guarantee Act by the government of India. The purpose was to discuss in an interactive manner various issues relating to the employment guarantee programme. There was an overall agreement in the round table on the need for such a programme and on its feasibility in the current Indian context. This note is based on the deliberations at the round table but goes a bit beyond the discussions.

Employment as a Right

Employment programmes targeted at the poor are generally identified with poverty alleviation. The proposed Act goes beyond poverty alleviation and recognises employment as a universal legal right. When viewed as a right, providing employment to all those who demand it become an end in itself. A direct implication of this is that programmes for guaranteeing employment have overriding priority in the allocation of public funds over several other competing demands. The instrumental role of employment programmes in alleviating poverty and generating social and productive assets, though not to be ignored, is then only secondary. Practically, however, implementation would take some time and the right to employment can be achieved only through progressive realisation over a few years.

The Basic Framework

It was felt during the deliberations that the proposed Act as per the draft circulated by the National Advisory Council (NAC) is too detailed. The Act should be brief and have only the minimum essential clauses relating to the employment guarantee aspect. Details on implementation procedure should be left to office orders and guidelines that provide enough flexibility for state governments and local implementing agencies to design works and procedures to suit local needs. For example, imposing restrictions on the use of machine or materials could reduce productivity and long-run sustainability of the programme. State governments and local officials should be free to take up the works in coordination with active line departments of the district. Even restrictions on use of contractors, as presently imposed by Sampoorna Grameen Rozgar Yojana (SGRY) guidelines and in the proposed Act, could be removed. The fear that contractors may not use local labourers has to be dealt with by clear instructions and its proper implementation.

With regard to the scope of the programme, a majority view was that though the programme may begin with geographical targeting of 150 poorest districts, it should not be restricted to certain regions. The coverage should be extended to the whole country within a well-defined time period of about four years. Ultimately, demand for employment should determine the size of the programme. It should be universally open to all those who are willing to do manual work. The limits of this open-ended programme would depend upon self-selection by those who seek employment. Given a particular wage rate, it is the individual who decides whether to work or not. In agriculturally prosperous regions there is not likely to be much demand for it. In districts/regions where demand would be low/negligible, there may not be need for a separate implementation machinery as proposed in the Act. Similarly, restrictions such as 100 days per individual or one member per family as proposed in the Act will not only dilute the rights perspective, but will increase the administrative workload. Besides, such restrictions would require the discretionary power on part of the implementing authority, which often results in deprivation of the needy. There should be no restrictions on number of days of employment or number of participants per family. Instead of specifying restrictions on the number of days of employment, a better option may be to operate the scheme for seven months in a year, which are identified as the agricultural lean season by the state government.

Evaluation studies of current public works programmes have identified a number of problems like improper maintenance of records, presence of ghost workers, leakages and rent seeking by implementation authorities, etc. These are a reflection of systemic flaws and no doubt require change in governance structures. Greater involvement of the gram sabha, non-governmental organisations (NGOs) and private agencies in the planning and implementation stage should be encouraged. An independent advisory and monitoring commission at the national level be set up to oversee the implementation and carry out evaluation from time to time. They could also hear complaints.

Wage Rate

Crucial to the success of the programme is the wage rate. It will determine the demand for employment, and the corresponding size and the funds required for the programme. The proposed Act stipulates that the wage rate will not be “less than the statutory minimum wage of agricultural labourers applicable in the state”. In a situation where already the minimum wage rate varies substantially across states, central government financing the programme as per wages determined by the states may not be a viable option. When the funding authority and the wage rate fixing authorities are different, then competitive hiking of the wage rate by different states cannot be ruled out, as that is a way by which states can get more funds. A national minimum real wage rate for the programme would be a better option.

The national minimum real wage rate should be fixed at a level that meets a fixed basket of minimum needs of an average household. This real wage rate can then be adjusted across states to take care of interstate price differences. The state-specific nominal wage rates can then be adjusted periodically to take care of
inflation. States may be allowed to provide a higher wage rate if they could supplement the additional funding from their own source.

It should be borne in mind that the national minimum real wage rate in an employment guarantee programme would virtually act as a floor for all other economic activities throughout the country, including agriculture. Hence, its level should not be fixed very high. Else, it can potentially disrupt the economies of the poorer states.

Further, the minimum wage should be somewhat comparable to the current reservation wage for casual workers. A wage rate that is significantly higher than market wage rate would induce substitution of labour from existing activities leading to greater demands on the employment guarantee programme and in turn a higher financial burden.

Thus, one might suggest a national wage rate based on all-India poverty line, average household size and worker-population ratio. For 2002, the all-India rural poverty line is Rs 340 per capita per month, with an average family size of five and a worker-population ratio of 0.42 (as per NSSO 55th round), the national minimum wage rate would be Rs 32 assuming 25 days of work per month. Even for a liberal poverty line of Rs 400 per capita per month, the wage rate would be Rs 38. As against this the actual observed average market wage rate (non-public works) in rural India in 1999-2000 as per NSSO 55th round was close to Rs 40. All these suggest that a national minimum wage rate of around Rs 40 would be a more viable option, that would permit removal of restrictions on the volume of employment as discussed earlier.

Financial Implications

Several estimates of the financial implications of the programme are available and they vary widely. The estimates of Drèze (2004) prepared for the NAC are based on a phased implementation over four years (2005-06 to 2008-09). The poorest 150 of about 600 districts covered first and in each subsequent year 150 districts are added depending on their decreasing order of poverty such that all the districts are covered in 2008-09. By superimposing the headcount ratio of 1999-2000 on Census 2001 and taking an average family size of five, the number of poor households are 1.67 crore for the poorest 150 districts and 4.0 crore in total. Assuming (a) a wage rate of Rs 60 per day, (b) wage to non-wage ratio of 60:40, and (c) guarantee of 100 days of work per member per poor family, the cost at 2004-05 prices ranges from Rs 16,700 crore for the poorest 150 districts and Rs 40,000 crore if the coverage is for the whole country. The total cost as a ratio of Gross Domestic Product (GDP) ranges from 0.50 per cent in 2005-06 to 0.99 per cent in 2008-09.

An alternative set of calculations by Abhijit Sen starts by looking into the source of demand for employment. There would be demand for employment from two categories of labourers: those who are unemployed at present and those who would be unemployed due to wage rate being higher than prevailing market wage. Given that about two-thirds of casual labourers received less than Rs 40 a day in 1999-2000 (as per NSSO 55th round data), Sen estimates that about 12 per cent of rural adults (3 crore) would demand employment in the programme at a wage rate of Rs 60 per day. Assuming the wage component to be 60 per cent of the cost and guarantee of 100 days of work the total cost of the programme would be Rs 30,000 crore.

The above two estimates of financial implications start from a supply-side perspective of the availability of labour. This approach might overestimate the demand for employment since not all might present themselves for work under the programme. Indeed, Maharashtra’s experience with its Employment Guarantee Scheme (EGS) points to such a situation. Maharashtra with about 10 per cent of India’s population and poverty estimates approximately equal to the national average spent about Rs 1,000 crore on EGS in recent years (2001-02 to 2003-04). The minimum wage rate in Maharashtra, which is also the rate applicable for the EGS, is around Rs 45 per person per day. There are of course complaints with regard to the functioning of the EGS in Maharashtra and there is possibly scope for further expansion (see discussion below). Allowing for a doubling of the EGS and extrapolating to the all-India level, a funding of Rs 20,000 crore would seem to be adequate at the national level at a wage rate of Rs 45.

Given the current level of India’s GDP, all the above alternative estimates of the financial cost of the programme range between 0.5-1.0 per cent of current GDP or 3-6 per cent of central government’s total expenditure. Note that this is an additional expenditure to expand the current public works programmes to incorporate the guarantee component. While these estimates do not seem high for a programme that could in principle substantially contribute to poverty alleviation, it is an open question how the government will find the required additional resources.

Lessons from Maharashtra’s Experience

Past studies have pointed to several merits and shortcomings of the EGS. The EGS experience lends credence to the argument that a low wage rate is critical to ensure self-targeting for the poor and to minimise the possibility of substitution of labour from normal economic activity to EGS employment. The sudden doubling of the wage rate in 1998 led to some substitution of labour as well as shrinkage of the supply of employment due to the budget constraint of the government.

Another important feature observed in the Maharashtra EGS is that the supply of employment seems to adjust to fluctuations in the demand over seasons and over years, especially drought years. This has led many to conclude that EGS works more as a relief programme during years/seasons of crisis rather than as a programme for poverty alleviation. The latter is also borne out by the fact that rural poverty in Maharashtra has not declined substantially, and is close to the national average.

With regard to the assets created under EGS, it has often been criticised that the assets created are often of poor quality and has not led to an increase in productivity in the rural economy. However, there are instances of success on this front too. Horticulture and land development activities are now permitted on private holdings of marginal and small farmers under EGS. Private owners have a stake on maintenance of such assets which result in a sustained improvement of the livelihood of the beneficiaries so that their dependence on wage employment reduces over time.

It must, however, be noted that the major benefits of EGS in general seems to have been limited to certain geographical pockets. The backward regions and tribal belts in particular have not benefited much from the EGS. In fact, many authors have pointed to a lack of awareness amongst the potential beneficiaries of the round-the-year guarantee component provided by the scheme.

The Maharashtra EGS also provides for compensation in case the government is
unable to provide employment within two weeks of having registered under the scheme. The experience, however, has been that hardly any amount has been paid to anyone till date. One possible reason for this could be that the amount of compensation fixed is itself very low, and the opportunity cost for claiming the compensation could be much higher. Thus, a critical requirement for the proposed national employment guarantee programme should be to clearly define a mechanism by which citizens can enforce their compensation if they do not get employment on demand. A simple procedure of paying compensation would help people who would not have the time and money to seek legal recourse.

The proposed Act at the national level mentions payment of compensation at one-third of the applicable wage, which is to be met by the respective state governments. The feature where the liability for compensation is on the states (which has the responsibility to implement) is a potentially useful means of ensuring efficient implementation. Claims for compensation can in fact be used as a means to monitor programme delivery. The proposed act goes beyond just monitoring and in fact suggests imposing monetary liability or imprisonment of the concerned programme officers in such instances. Using instances of claims of compensation to penalise the implementing authority could lead to undesirable consequences – such as not registering claims for compensation, registering false claims for compensation as a means to settle scores, etc. This can act as a deterrent to get able and committed officials posted for such operations. However, accountability of the officials and agencies involved should be adhered to under normal government rules.

At the end, it may be mentioned here that there has not been an independent statewide evaluation of the functioning of the Maharashtra EGS in recent years. Such a contemporary evaluation would help in drawing further lessons for the proposed national employment guarantee programme.

Notes
1 We would like to thank the participants at the round table for the lively and enlightening discussion on a wide range of issues, and to R Radhakrishna for comments on an earlier draft. Usual disclaimers apply.
3 We would like to thank Jean Drèze for providing us a copy of his note prepared for the NAC.

References

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