

## Multiplier accelerator synergy in NREGA

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*The concepts of multiplier and accelerator borrowed from macroeconomic theory illuminate the enormous potential of NREGA and help set standards that it must be judged by.*

Over the last few months, just as the economy entered its current recessionary phase, the mainstream media, which till then had been uniformly unswerving in their antipathy to NREGA (National Rural Employment Guarantee Act), suddenly began to sing its praises. In all the gloom and doom, we are told, rural India is shining.

All this talk of a shining rural India must, of course, be dismissed as it was by the electorate five years ago. India's countryside continues to be characterised by a sluggish agrarian economy, marred by malnourished children and anaemic women, as also suicide by farmers in distress. But there is no question that NREGA has put money into the hands of the poorest of the poor on a scale that is unprecedented in the history of independent India.

The concepts of the multiplier and accelerator borrowed from macroeconomics and adapted to an agrarian economy help explain what such money could do in a recession. Till the 1930s, mainstream economic theory was steadfast in its denial of the very possibility of large-scale unemployment under capitalism. The work of two great economists (Michal Kalecki and John Maynard Keynes), following up on the Great Depression of 1929-33, changed this view forever. They showed that without appropriate government intervention, widespread unemployment would be a characteristic feature of capitalism.

Government intercession in a recession can take the form of various counter-cyclical policies to stimulate demand. One is to reduce taxes so that there is more money in the hands of taxpayers. Another is a large-scale public works programme like NREGA, which creates purchasing power among workers. When those receiving tax breaks or working on NREGA sites spend this additional money, they create demand for commodities. The production of these commodities, in turn, creates demand for capital, raw materials and workers. The extra incomes so generated cause further demand, which again provides a stimulus to production, employment and demand ... and so on in a spiral. This demand stimulating process is called the multiplier.

The value of this multiplier depends on the marginal propensity to consume (mpc) of those benefiting from government intervention. The mpc is our extra spending out of the additional rupee we earn. Clearly, the higher the mpc, the greater the stimulus provided to demand. The great thing about NREGA from this point of view is that it is putting money into the hands of those whose mpc is the highest. Those on the margins of existence are more likely to spend than save most of what they earn.

This explains the celebration of NREGA in the media. Apparently demand in the economy is being sustained by rural buying, which has received a boost from NREGA incomes. But this is not even half of NREGA's full potential. For NREGA is much more than an ad hoc relief programme dishing out doles (or what these days are more fashionably called direct cash transfers). It promises transformation of rural livelihoods. To understand how NREGA can deliver on this potential, we need to grasp a curious unrecognised fact about agricultural labour in the most backward regions.

Not many people know what data from the Rural Labour Enquiry of the National Sample Survey confirms, that a very high proportion of agricultural labour households in India actually owns land. The percentage is around 50 in Rajasthan and Madhya Pradesh, 60 in Orissa and Uttar Pradesh and over 70 in Chhattisgarh and Jharkhand. And if we focus on Adivasis, the proportion shoots up to as high as 76-87 per cent in Chhattisgarh, Jharkhand and Rajasthan.

Why are these facts important? Because they help us understand that NREGA workers are not just consumers stimulating demand in a recessionary economy. They also include producers — millions of small and marginal farmers forced to work under NREGA because the productivity of their own farms is no longer enough to make ends meet. NREGA will become really powerful when it helps rebuild this decimated productivity of small farms. Public investment in the programme incentivises private investment by small farmers and gives them a chance to return to full-time farming. I have seen hundreds of such examples, especially in the central Indian tribal belt, arguably the poorest parts of the country. Here earthen dams on common land have recharged wells of those poor farmers who earlier worked as labourers to build these dams. These farmers are now busy making a series of investments to improve their own farms.

Thus, a mutually reinforcing relationship between investment and income is catalysed by NREGA. First, investment generates demand and income through the multiplier. Then, income stimulates investment via the accelerator. Giving rise to a spiralling cycle repeated in successive rounds. Although not usually deployed in such a context, the accelerator principle in macroeconomic theory describes the positive impact of growing incomes on private fixed investment. Rising incomes also improve capacity utilisation and happier expectations act as incentives for more investment. Under NREGA, farmers have come back to land they long abandoned, as increased output, in an atmosphere of renewed hope, spurs further investment. Converging NREGA with other programmes for rural livelihoods would carry this momentum forward in a positive upward spiral, which will broadbase the growth process via downstream multiplier-accelerator effects. Effectively a wage employment programme can thus be transformed into a source of sustainable livelihoods generating self-employment. Which would permit reductions in allocations for NREGA over time, not only because landed labourers get back to their own farms but also because of a general rise in demand for labour in the rural economy.

Ten years ago, in our book, *India's Drylands*, my colleagues and I sketched precisely this kind of scenario. With the key proviso that investments in an employment guarantee programme must be in productive, eco-friendly assets. This would ensure that the

resultant growth dynamic is both sustainable (by regenerating the environment) and non-inflationary (by easing the agrarian constraint). Not only does demand need stimulation, growth has to be sustainable in both economic and ecological terms, especially in these times of climate change. So what we require is not just a stimulus *a la* Keynes but a specific new kind of stimulus *a la* Schumpeter!

There is no way this multiplier-accelerator synergy can fully come into play without the most important piece of the NREGA jigsaw falling into place – radical governance reform. NREGA is a revolutionary Act that seeks to bring real democracy to India's grass-roots. By replacing the contractor raj, which has dominated rural development in India, with Panchayat Raj — planning, implementation and social audit of works by gram panchayats under the oversight of the Gram Sabha. This requires the creation of a new cadre of dedicated executive agencies serving panchayats, with a team of barefoot engineers and social mobilisers supporting them. Only then can NREGA yield rejuvenated watersheds and recharged water tables. Without which the multiplier-accelerator synergy will remain a distant dream.

Radical governance reform challenges the very fabric of rural social relations. Strong state support is essential to dismantle the fossilised yet exploitative system and to build an effective alternative. Even the few hesitant steps in this direction have produced a violent reaction. As we approach the first anniversary of the martyrdom of Lalit Mehta, a crusader in the NREGA cause, it is time to remind the state of its duty to protect the unsung heroes who continue to risk their lives to make NREGA a success.

While entering untested waters, there are other fresh challenges. Paradoxically, the attempt to check corruption by making payments through banks or post offices has backfired in transition. The additional NREGA load is proving impossible to handle and workers also find it hard to reach these sparsely located distant offices. Local elites with greater mobility and access take hold of workers' job cards and swindle them by fudging entries both on job cards and the centralised computer database. As the social audit process picks up and workers become more aware of the scams taking place in their name, things will improve but there is no alternative to making banks and post offices better equipped and more effective. Could these expenses be met through the 6 per cent administrative costs provided under NREGA? NREGA has fallen short of its potential because the preparation needed for this revolutionary Act was not in place before it was launched. Let us focus radical governance reforms on the 200 most backward districts or even better 1,000 most backward blocks. Where NREGA really matters and should have been restricted to in the first place. If a new architecture of implementation is put in place here, we could see not only the multiplier but a productivity enhancing accelerator in action that transforms livelihoods for millions of our poorest people, in a manner that is sustainable in both economic and ecological terms.

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