

## NREGA: A Historic Opportunity

-Mihir Shah

The National Rural Employment Guarantee Act (NREGA) proposed to be enacted during the current winter session of Parliament represents a historic opportunity for socio-economic transformation in rural India. The 1990s have brought the crisis of rural India to the fore. For the first time since independence, the decade witnessed a decline in per capita output in Indian agriculture. Crops grown and eaten by the poorest suffered the greatest neglect. The per capita net availability of pulses declined to less than half of what it was in the 1950s. The rate of growth of output of coarse cereals fell to almost zero. According to the FAO, the number of hungry people in India increased by 19 million between 1997 and 2001. Nearly half our children remain chronically malnourished. India has the highest percentage of anaemic pregnant women in the world. Reports of starvation deaths and suicides by farmers abound in the media. If there was any doubt that rural India was crying out for change, this was firmly dispelled by Verdict 2004. It is good to see those brought to power by this verdict now seeking to fulfill the people's mandate by enacting the NREGA legislation.

### The Argument in Economic Theory

This, however, is not the point of view of the pro-market liberalisers. For them the NREGA is a dangerous piece of legislation that threatens to snowball India's fiscal deficit out of control. They see it in direct conflict with the Fiscal Responsibility Act. To understand the issues involved, we need a brief theoretical interlude. Historically, this argument echoes the response of the British Treasury to former Premier David Lloyd George's suggestion of starting public works during the years of the Great Depression. The assumption implicit in such a view is that there is a fixed pool of savings available for investment and that an increase in public investment would "crowd-out" private investment. This vision of the economy was challenged by Kahn (1931) and comprehensively demolished by Keynes (1936). In the Keynesian view, savings are no longer exogenous, depending as they do on the level of income. So long as there is a slack in the economy such that income can be raised through an increase in the level of public investment, the resultant deficit would finance itself through a rise in the savings following the increase in incomes. However, with reference to

underdeveloped economies facing a major "agrarian constraint", Keynesian economists themselves argued that the assumption of a slack in the economy would not apply (Kalecki 1945, Rao 1952 and Dasgupta 1954). In a strict Keynesian sense, these economies could be viewed as being at a "full employment" level.<sup>1</sup> Deficit financing would necessarily be inflationary in these conditions.

Following Malinvaud's (1977) pioneering contribution to the theory of unemployment, however, Rakshit (1989, 2004) has provided a powerful theoretical reiteration of the relevance of "classical Keynesianism" (if one may call it that!) to the Indian context. Rakshit points to the existence of large excess capacity in Indian industry, massive increases in rates of saving and the fact of a large proportion of savings being held in the form of financial assets. This has the implication of a widening gap between the acts of saving and investment. To this we may add the massive stocks of foodgrains and burgeoning foreign exchange reserves of recent years. And we get a very different picture of the economy from the one portrayed by VKRV Rao and others in the 1950s -- quite far from Keynesian full employment, an economy where there are significant slacks that can be deployed productively for employment generation. The key word here is "productively". Spending money on the most critical national priorities -- universal access to primary education, mid-day meals, healthcare, water, food and work -- could actually "crowd-in" private investment and create the foundations for non-inflationary growth in the medium-term.

## The Way Forward for Indian Agriculture

Placed in the context of the current crisis of Indian agriculture, the argument against the "crowding-out" view becomes even more telling. The single most important factor contributing to the dismal performance of Indian agriculture in the 1990s is the decline in public capital formation. Gross capital formation in agriculture as a proportion of total capital formation in the Indian economy declined from an average of 17% in the 1970s to under 12% in the 1980s and it was just 9% in the first half of the 1990s. Public capital formation in agriculture that grew in real terms at 19% per annum in the 1970s, actually fell at an average rate of nearly 5% annually in the 1980s and even more precipitously at 7% annually between 1986 and 1993. Public investment in agriculture in real terms (1980-81 prices) was just Rs.1200 crores in 1991-92 compared to Rs.1800 crores in 1979-80 (Dhawan and Yadav, 1995, 1997). Gross public capital formation in Indian agriculture (at 1993-94 prices) fell from Rs.4947 crores in 1994-95 to Rs 3919 crores in 2000-01. Over the same period its share in gross capital formation in agriculture declined by 10% (CSO 2004).

To understand the present crisis in rural India, we need to acknowledge that our villages are in the throes of a grave environmental crisis. This crisis has reached such proportions that it is endangering the very livelihoods of the peasantry. Following the Green Revolution of the 1970s, there has been a veritable explosion of tubewell irrigation in large parts of India. These include the 65-70%

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1 For Keynes at full employment, the effective demand elasticity of output and employment is zero

of the country that is underlain by hard, impermeable rock formations. In these areas the use of this technology has engendered a man-made crisis of water. In less than thirty years, tubewells have literally "mined" water that took thousands of years to accumulate beneath the ground. The hydrogeology of these regions allows water to recharge aquifers pitifully slowly. As a result water tables have fallen dramatically. Many rivers in the rural hinterlands of India, fed by groundwater base-flows, have dried up. The catchment areas of the main sources of water – rivers, wells and tubewells – have been progressively decimated. This has meant that rates of soil erosion have increased, which has significantly reduced the life-span of all our dams, many of which were constructed at massive financial, social and ecological cost to the people of India.

Falling water tables and rapidly silting water reservoirs have led to a major crisis of drinking water that has not spared our towns and cities either. At the same time, the productivity of India's drylands, already neglected by the Green Revolution strategy, has been endangered. Even in the headquarters of the Green Revolution, such as Punjab and Haryana, the government is urging farmers to switch to a less water-intensive cropping pattern.

What the situation calls for is a massive increase in public investment in rural India in the direction of sustainable environmental regeneration. Votaries of privatisation may note that agriculture in India is already completely private. Its future hinges on what we do to restore the health of the many "public goods" that private agriculture critically depends on. The environmental crisis of Indian agriculture represents a classic case of market failure. Unregulated actions of individual economic agents have been neither adequate nor appropriate. They have, rather, precipitated a crisis of public goods that threatens the very future of farming in India. Attempts to maximise their share of water by competitive farmers and industries has, for example, led to over-extraction of groundwater, which by its very nature is a "fugitive" common pool resource. To recharge this groundwater needs urgent and large-scale measures to treat the catchments of these depleted aquifers. This would slow down the velocity of fast running off surface water and convert it into more usable groundwater. This fast flowing surface run-off is also the main cause of soil erosion, a principal contributor to declining soil fertility and agricultural productivity in India. Catchment area treatment and rain water harvesting are, therefore, key areas of public investment in rural India that can help restore water tables, improve agricultural productivity and increase the life-span of our dams. These catchments comprise forests and wastelands, which are also common pool resources, decimated mainly by actions of various industries and corrupt government forest departments. The investments needed to protect and treat them are beyond the capacities of individual farmers, especially the vast majority of small and marginal peasants. The future of these farmers depends on critical investments that can only be undertaken by the state. Similarly, in the flood-prone and waterlogged areas of Eastern India, restoring the profitability of agriculture requires massive investments in drainage systems comprising interlinked ponds across many villages and hundreds of farmers in each micro-watershed. These have to be undertaken by the state.

Till these investments are made, assisted by local grass-roots institutions in the requisite social mobilisation, agriculture in most parts of India, neglected or inappropriately impacted by the Green Revolution, will have no future.<sup>2</sup> However, once the necessary public investments are in place, a whole chain of complementary private investments are likely to be set into motion. Setting off the economy on to a path of sustainable agricultural growth. Which is the only way the non-agricultural sector could also gain momentum in rural India. Once there is water, we can conceive of many non-farm activities that can be sustained such as pisciculture, dairy development, agro-processing etc<sup>3</sup>

Public investments of this kind would, therefore, not have a crowding-out effect on private investment. Because they would contribute positively to higher growth rates in the economy, their inflationary potential would also be held firmly in check. Especially in a situation where there are comfortable stocks of foodgrain available for financing these investments. One argument made against the feasibility of using foodgrain stocks is that they are only a temporary phenomenon. Such a claim does not quite match up with the facts. For the last 10 years food stocks have been much higher than the buffer stock requirements. And the investments we are advocating would help continuously replenish these stocks. Indeed, I would argue that it is only these sort of investments that can help sustain the attempt by the government to both provide support prices to farmers and cheap grain to the poor through the Public Distribution System (PDS). Let me explain. What a massive employment programme will do is to raise offtake of grain in two ways -- directly when wages are paid in grain<sup>4</sup> and indirectly by putting incomes in the hands of the poor. These will enable them to buy PDS grain, which they are currently too poor to afford. Today, nearly two-thirds of the food subsidy comprises the "carrying cost" of grain (Abhijit Sen Committee Report 2002). This is because the offtake of grain from the PDS is much lower than it should be. This is, of course, partly a consequence of the government's decision to raise PDS prices in recent years as also the introduction of the Targeted PDS.<sup>5</sup> But most fundamentally it reflects the inability of the poorest to buy grain due to lack of purchasing power. Thus, a rise in purchasing power of the poor can help lower the burden of food subsidies by raising PDS offtake and thereby reducing the carrying cost of grain. This will also enable government to continue to provide price support to farmers. Otherwise the scissors will get too tight. The pressure to reduce food subsidy will require either that PDS prices be raised or that support prices be frozen. Ours is a win-win suggestion. Public investment in environmental regeneration could not only improve the environment and water supplies, it will make possible a quantum increase in agricultural

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2 Given the grim scenario of India's water resources, there is little consolation in arguing that the Indian economy would be better off depending less on agriculture. Without water, growth prospects of all sectors would be under threat. Catchment area treatment and water harvesting are, therefore, indispensable public investments for the Indian economy as a whole.

3 These are at least the indications from one of India's largest civil society initiatives for food and water security led by Samaj Pragati Sahayog in 50 districts across the 4 states of Madhya Pradesh, Chhattisgarh, Jharkhand and Bihar.

4 The NREGA allows upto 75% of the wages to be paid in kind

5 This is also aggravated by practices such as the insistence (contrary to recent Supreme Court orders) that people buy in one shot all the grain they are entitled to in a month. The poor never have enough money at any given time to be able to do this. Of course, the very poor quality of much of PDS grain does not help either.

productivity of small and marginal farmers in the neglected regions of India that have a massive untapped potential. This will keep up the supply of food available for employment programmes, mid-day meals, ICDS and the PDS, where offtake levels will rise because of higher incomes with the poor. Which will allow the food subsidy to be kept under control.<sup>6</sup> The need for public investment will also come down over time because the number of people who need support through public works will decline. For millions of those who are forced to work outside their land will be able to support their families on their own farms. Indeed, the share of private investment in gross capital formation in agriculture will gradually increase over time.

## The Historic Significance of the NREGA

The best way of undertaking the necessary public investment is by enshrining it as a constitutional right. This employment programme cannot be allowed to remain dependent on the moody munificence of a vacillating welfare state. It has to be seen as a national imperative and as an inalienable right to be exercised by the people as and when they require to.

The National Rural Employment Guarantee Act (NREGA) that aims to cover all of rural India within five years, is an attempt in this direction. It is an Act with a potential socio-political significance for the rural poor that is matched only by the 73rd Amendment. The NREGA seeks to provide "at least one hundred days of guaranteed employment at the statutory minimum wage" to adult members of every rural household who volunteer to do casual manual work. For this a dedicated National Employment Guarantee Fund is to be set up that will be expended exclusively for implementation of the Act. It is disappointing that the right has been restricted to households, rather than opening it up to each individual in need, especially in view of intra-household gender discrimination. The household condition also opens up a minefield of recording problems, since there is a great fluidity in the way members of the same household typically report to work in rural employment programmes in India. The restriction to only a 100 days also does not make sense. The right to work is to be exercised by people in need. These needs will vary depending on the vagaries of nature. They could be for more or less than 100 days. In years and areas of severe drought the requirement could be greater. In other seasons and places, the demand for work will be less. Is the government saying that it will not respect this right when people need it the most? An Act is different from a government scheme. The financial allocations for schemes can vary from year to year. If the necessity for it declines over time, as it should if implemented properly in the right direction, the allocations can be reduced. But the whole point of an employment guarantee act must surely be to provide work to people as a matter of right when their need is the greatest. The saving grace is that the Act leaves it open to the Central and State governments "to raise the household entitlement beyond 100 days, or extend it to every adult, in some

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<sup>6</sup> In no event should the government continue the current resort to exports as a way of keeping down the food subsidy. Between 1999 and 2004, the annual diversion of food away from welfare schemes and employment programmes to exports and open market sales, has been around 25% on an average.

or all areas of India, through suitable provisions made in the Rules."

Indeed, the Act has many remarkable provisions. Wages are to be paid every week and in any event not later than a fortnight. In case of any delay in the payment of wages, labourers will be entitled to compensation as per the Payment of Wages Act. It is also provided that under no circumstances "shall there be any discrimination on the basis of gender in the provision of employment or the payment of wages, as per the provisions of the Equal Remuneration Act 1976". There are provisions for compensation and treatment in case of injury and for on-site safe drinking water, care of small children, periods of rest and a first-aid box. The Act also forbids the use of contractors and labour displacing machines. At least 60% of the expenditure under any project has to be on wages. These are all provisions so commonly violated in many parts of rural India that their significance cannot be sufficiently underscored.

At least fifty percent of the projects, in terms of value, are to be implemented through the Gram Panchayats. Each Gram Panchayat is to prepare a Development Plan and maintain a shelf of possible works to be taken up under the Programme as and when demand for work arises, taking into account the recommendations of the Gram Sabha (and, if applicable, Ward Sabha). Proposals for these projects, including an order of priority between different works, will be sent to the Programme Officer for scrutiny and preliminary approval. The Programme Officer will be responsible for the implementation of the employment guarantee programme in the Block.

Adult members of every rural household who are willing to do casual manual work at the statutory minimum wage will apply to the Gram Panchayat for registration. The Gram Panchayat will register the household, after making necessary enquiries and issue a job card containing details of its adult members along with their photographs. The registration will be for a period not less than five years, and may be renewed from time to time. Employment will be provided to every registered person within 15 days of receipt of an application. Applications must be for at least 14 days of continuous work. The Gram Panchayat is bound to accept valid applications and to issue a dated receipt to the applicant. Group applications may also be submitted. Applicants who are provided with work will be notified in writing, by means of a letter sent to the address given in the job card and by a public notice displayed at the Gram Panchayat Office. As far as possible, employment will be provided within a radius of 5 km. Even if work is provided beyond 5 km, it will be provided within the Block, and the labourers paid 10 percent of the daily minimum wages extra, to meet additional transportation and living expenses.

If the applicants are not provided with work as described above, they will be entitled to a daily unemployment allowance after 15 days from the date of application. The unemployment allowance will be at least one fourth of the prevailing statutory minimum wage for the first thirty days and not less than half of the minimum wage for the subsequent days. Of course, there is a provision that applicants who do not accept the employment provided and/or do not report for work within 15 days of being

notified or remain continuously absent from work, without a valid exemption, for more than one week, will be debarred from claiming unemployment allowance for a period of three months. There is a whole section in the Act dealing with transparency, accountability and audit. The Gram Sabha is to monitor the work of the Gram Panchayat through regular social audits where all relevant documents, including muster rolls, bills, vouchers, measurement books, copies of sanctions, etc. will be made public. Completion and utilisation certificates of works are to be issued by the Gram Sabha. There is also provision for penalty: "whoever fails to carry out his/her obligations under this Act, without any reasonable cause, shall be liable upon summary conviction to a fine of not less than Rs.1000".

However, just as with the 73rd Amendment empowering panchayats, the real significance of all these provisions will be directly proportionate to the extent and manner in which they are creatively pushed to their limits by the very same forces of change at the grass-roots who played a critical role in their being included in the Act in the first place. In a society beset with deep social and economic inequities, any such Act can only create an additional space for change. The NREGA can become a major new instrument for galvanising Panchayat Raj institutions in India. But how far this actually happens will depend a great deal on the mobilisation of the disadvantaged in society -- women, dalits, adivasis and the poor. In most parts of India, these sections have virtually no voice in the Gram Sabhas, which have been reduced to a farce. Without their mobilisation and empowerment, the full socio-political potential of the Act will not be realised. The role of grass-roots civil society institutions will be crucial here.

Postscript: Just as we were preparing to go into print, comes the news that the draft of the NREGA approved by the Ministry of Rural Development (referred to in this paper) is being sought to be badly diluted prior to its being placed before Parliament. The right to work is sought to be restricted to "poor" households, the extension of the Act to the entire country within 5 years has been put on hold and the payment of minimum wages is sought to be made "non-obligatory". These changes are a major setback in the movement towards a genuine right to work. If the poor are going to be understood as those holding BPL cards, the entire meaning of the Act would be lost. The right to work will then get substituted by yet another scheme mindlessly targeted to those identified by the blatantly distorted and eminently discardable BPL survey. There is clearly more work to be done by those manning the trenches!

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