

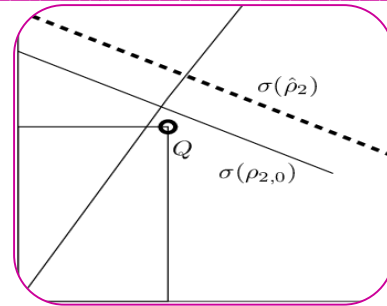


ANALYSING IMPACT OF NREGA IN THE KEYNESIAN THEORETICAL FRAMEWORK

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ABSTRACT :

Rural Indian economy is characterized by demand constrained as well as supply constrained economy. Modern jobless growth of Indian economy is accentuating further problems of our rural economy. In this situation NREGA works were expected to take care of both the sides together. But arbitrariness in selection of total number of work days related with social capital formation, independent of the level of skill formation in the economy, availability of technological inputs will ultimately lead to the suboptimal situation. The NREGA was motivated by the fact that India's recent economic growth had not reached large sections of the rural population and that this urban based growth, was deepening divisions in the economy and society. The nineties were termed as a period of 'job-less growth' as high GDP growth rates failed to generate adequate employment opportunities. In fact, during the mid to late nineties (1993-94 to 1999-2000) when annual GDP growth rates increased and stood at over 7 per cent per annum, employment growth rate declined and was only a little over 1 per cent per annum. While the share of the agricultural sector in total employment is reducing, albeit at a low pace, over half of the entire labour force is still engaged in agriculture.

KEYWORDS : Demand Constrained, Supply Constrained, Multiplier Effect, Scale Effect, Exogenous Variable,

INTRODUCTION

"I will give you a talisman. Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest and the weakest man whom you may have seen, and ask yourself, if the step you contemplate is going to be of any use to him. Will he gain any thing by it? Will it restore him to a control over his own life and destiny? In other words will it lead to Swaraj (i.e. self-rule/freedom) for the hungry and spiritually starving millions?" By Mahatma Gandhiji Mahatma.

Gandhi National Rural Employment Guarantee Programme (MGNREGP) is the flagship programme of Government of India aimed at enhancing livelihood security of households in rural areas of the country. This programme was envisaged by the National Development Council (NDC) and was approved by the parliament through an act; National Rural Employment Guarantee Act, 2005 (NREGA) on September 7, 2005. This programme was launched on February 2, 2006 as NREGP (National Rural Employment Guarantee Programme) by merger of two on-going programmes of Sampoorna Grameen Rozgar Yojana (SGRY) and National Food for Work Programme (NFWP).

The main concern of this research paper is to analyse impact of NREGA on rural agrarian economy with or without social capital. In the process an attempt has been made to find out optimum level of NREGA works given other resources in a typical rural agrarian economy with given level of social capital. This research paper consists of 5 sections. Section 1 of the study is an introductory section which provides background that led to passing of the ACT by Indian parliament. It also describes the Act and other related

issues. Section 2 provides review of literature and the gaps in the literature which this study has undertaken to cover. Section 3 describes the objectives of the study and methodology. Assessment of NREGA on rural economy is detailed in Section 4. Section 5 provides conclusions and recommendations. Development of the country is associated with the overall development of the rural areas and poverty is the basic feature of these areas. Development theories have its origin from three different halls of the academy. It has originated from contradictions between economic growth and economic development which are the concerns of the field of economics, between the dialectics of modernity and tradition concerned in the study of sociology and between the theme of state and society which belongs to the academy of political theory (Nayak, 2008:1). The theories of economic growth were investigated by the mercantilists and physiocrats and by notable classical economists like Adam Smith, David Ricardo, John Stuart Mill, Thomas Robert Malthus and Karl Marx in the 18th and 19th century (Jingan, 1997: 92).

OBJECTIVES OF MGNREGP

The mandate of the programme is to provide 100 days of guaranteed wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work. The objectives of the programme include:

- 1) Ensuring social protection for the most vulnerable people living in rural India through providing employment opportunities
- 2) Ensuring livelihood security for the poor through creation of durable assets, improved water security, soil conservation and higher land productivity
- 3) Strengthening drought-proofing and flood management in rural India
- 4) Aiding in the empowerment of the marginalised communities, especially women, Scheduled Castes (SCs) and Scheduled Tribes (STs), through the processes of a rights-based legislation
- 5) Strengthening decentralised, participatory planning through convergence of various anti-poverty and livelihoods initiatives
- 6) Deepening democracy at the grass-roots by strengthening the Panchayath Raj Institutions
- 7) Effecting greater transparency and accountability in governance.

MGNREGP has become a powerful instrument for inclusive growth in rural India through its impact on social protection, livelihood security and democratic governance.

BACKGROUND TO THE ACT

Indian economy even today is characterized as an agrarian economy with an overwhelming share of agricultural employment in total work force. Overtime, despite a continuous reduction in the share of agricultural output in GDP, its share in employment remained stagnant for a considerable period of time only to start falling after 1990. Today, it stands at about 53% with manufacturing and construction and services sector contributing 19.3% and 27.8% [NSSO 2013]. Worse yet, with small but capital intensive organised manufacturing, employment could not get expanded beyond a point. Given the near zero employment elasticity in the agriculture and rapidly rising labour force, the small increase in the employment share of the agriculture sector could not arrest the rise in the absolute number of workers implying disguised unemployment in the sector.

Also at the same time, the growth of employment in both industry and services sectors particularly after economic reforms, did not commensurate with output growth. As a result, the sharp decline in the share of agricultural output in the GDP has contributed to the dependency of a very large number of workers on agriculture with a very low pay off. Such an evolving structure of the Indian economy has over the years, perennially afflicted it with the problem of unemployment; more severe in rural areas, more acute in the post-reform period.

The critical and emergent nature of the twin problem of unemployment and poverty in the backdrop of the failure of the trickledown theory³ called for state intervention to generate employment following

Keynesian prescription through policy planning initiatives. In India, state intervention is not new. It dates back to the fifth five year plan that spelt out removal of unemployment and poverty alleviation as one of the principal objectives of economic planning⁴. The central focus of the model has been to generate employment, improve personal/household income through rural asset creation and demand generation to reduce poverty.

Employment generation schemes of the earlier year was unable to take care of the failure of trickledown effect of low (3- 4%) GDP growth. It was equally absent when GDP grew 6-8% in the post reform period, necessitating continuation of rural employment generation schemes. NREGA in 2005 was in fact an outcome of that process, though with a difference.

NREG Act, 2005:

The Act called National Rural Employment Guarantee (NREG) is a unique initiative in the history of social security that guarantees employment on local public works to anyone who applies for it. Essentially, the programme is demand driven as employment is to be provided on demand within fifteen days. More specifically, it is an active social policy that guarantees right to work and dignity of labour, decentralized planning, village autonomy, i.e. participatory and inclusive growth. The Act compliments economic reforms in an essential way. This feature of the Act has similarities with what Gandhi had visualized in his developmental plan for India in his book titled India of My Dream.

The Act differentiates itself from the earlier anti-poverty programmes in as much as while all the earlier programmes were put in place through executive orders, NREGA originated as an Act of Parliament and as such is irreversible. It was notified on September 7, 2005 and came into force on February 2, 2006 and was implemented in a phased manner: 200 districts in 2006, 130 districts in 2007 and in the remaining districts in 2008.

REVIEW OF LITERATURE

The review of studies carried out on the impact of NREGA on rural economy provides us the following evidence:

- (1) NREGA works have shown massive expansion
- (2) It has benefited NREGA workers directly through income generation effects and all rural labour through increase in agricultural wages achieved by interaction of NREGA wages with private agricultural wage and thereby magnified income generation effects of the programme.
- (3) Self-selection principle has worked quite well. It has provided employment to the targeted section of rural poor population, half of them women and another half belong to SC and STs.
- (4) There are also other achievements of varying degree such as creation of productive assets in rural areas and the revival of Panchayati Raj Institutions including Gram Sabhas and reduction in distress migration, but these achievements have varied a great deal across states/regions.

There is some truth in the above assertion, as even while we agree with its positive impact, the constraints imposed in the process of implementation have retarded its progress. When CAG report based on first phase districts of NREGA implementation cast doubts on the desirability of the scheme, Government of India initiated reforms to promote transparency in its implementation in the form of bringing all its documents and data into the public domain through management information systems. But in spite of all these efforts, awareness about some of the provisions of the Act still continues to be low. Low awareness about work on demand, low awareness about grievance redressal mechanism continues to afflict its implementation, which reduces its help to poorest of poor.⁸ Similarly when provisions of the Act on planning at the Gram Sabha level are reviewed in terms of number of meetings of the Gram Sabha, extent of participation in Gram Sabha meetings, the role of Gram Sabha in the selection of NREGA works, the results from studies are found to be as dismal as in the case of awareness of the provisions of the Act [IIM Lucknow

2009, Central Institute of Fisheries Education 2009]. Non availability of work on demand, provision of dated receipt and payment of unemployment allowance are some of the other issues.

Two major studies conducted in Punjab: one by CRRID (2009) and the other by Agro-Economic Research Centre of Punjab Agricultural University (2011) lend support to the findings from across other states that while NREGA has impacted the lives of rural poor especially both women and SC and ST but the constraints of lack of awareness on provision of NREGA still haunts its implementation that results in a reduced impact. However in the entire literature it is not seen whether increased capacity through NREGA in the rural economies are enhancing scale economies of production or retarding it due to arbitrariness of choice between work and skill enhancement. Further choice of 100 days of work is somewhat arbitrary as it may require more than that or less than that to reach optimum level of production.

OBJECTIVES & METHODOLOGY OF THE STUDY

The broad objectives of the study are to explore features of agrarian rural economy following a simple Keynesian framework, find out its constraints of development and analyse whether NREGA is able to address these issues in a macro frame work. It is assumed that NREGA will generate sufficient demand of rural produces in a sustainable way through consumption boost up as well as create a multiplier effect through asset creation.

We have followed theoretical analysis in a Simple Keynesian framework assuming changing average cost due to scale benefits in long run. At the same time concepts of envelop theories are used to portray rural economic activities and direct impact of external intervention on the economy through NREGA and induced impact of that on rural asset creation, demand generation leaving skill generation and other factors to move in a discrete way.

RECOMMENDATIONS

NREGA works of social capital formation increases rural output and employment along with a strong demand side boosting in the rural economy. But still economies are not coming out of the low income employment trap because it has not considered the movement of related factors in their respective optimal level. So we are of the opinion that optimum work programmes cannot be determined in Gram Shabhas or in District Planning Cell as per budget sanction but a coordinated effort among different departments will design the programmes keeping in mind the production relations existing in the economy. Otherwise some short term success may illuminate but in long run rural economy will come back to the trapped level of income. Coordinated govt. effort should determine $C_s = C^*$, $L_s = L^*$, $T = T^*$ i.e., optimum values of these variables which will lead to the global optimum avoiding the problem of increasing cost. Now these optimum values will determine days of work which may well be greater or even less than 100 days of stipulated works.

CONCLUSION

MGNREGS marks a radical departure from earlier wage employment programmes in terms of its legal and demand-driven framework. However, there is no denying the fact that there have been many problems in infusing the system with the new culture of demand-driven, rights-based, decentralised decision-making. Rural Development needs accelerated attention for any fact of development. Primarily it requires changes in the economic, social, political and psychological behaviour of the rural people who are illiterate and ignorant. The various developmental programmes are mainly concerned with improving the standards of the population possessing low income population residing in rural areas and making the process of their development self sustainable. The developmental programmes are aimed to get desired results. The development programmes are targeted to improve living conditions, providing minimum needs, increasing productivity and employment opportunities. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is one of the rural development labour based programme executed by the central government. The 100 days flagship programme has provides immense help in the upliftment of the

malnourished population, least in contact with the modern world, least influential politically, least likely to possess adequate land and capital for a decent life, least able to help themselves and hardest for governments to help. The poor are located in a disproportionate manner in millions all over the country, the focus in regard the development has shifted to rural development on account of the obvious failure to bring about appreciable improvement either in the living conditions of the weaker sections of the rural population or in reducing poverty and unemployment. In response to this challenge, the government launched MGNREGS with the dual objectives of providing wage employment opportunities for the rural poor who are landless or highly reliant on wage labour work and promoting agricultural productivity through the creation of rural assets and infrastructure. Employment from MGNREGS involves registering, obtaining a job card and seeking employment. This programme ensures equal distribution of wages to both men and women.

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