CHAPTER III

AN ECONOMIC OVERVIEW OF THE MAHATMA GANDHI
NATIONAL RURAL EMPLOYMENT GUARANTEE ACT

3.1 INTRODUCTION

This chapter analyses the economic impact of the MGNREGA in various societies. Hence the study was conducted on various aspects such as budgetary, funding pattern of the MGNREGA, impact of economic development, purchasing power, inflation, inclusive Growth and multiplier accelerator.

3.2 BUDGETARY

In the financial year 2011-12 the total availability of funds under the MGNREGS was ₹43267.38 crore, of which ₹29184.86 crore was Central Government released, ₹16917.48 crore as Opening Balance and ₹31000 crore as budget outlay for making it the highest allocation for any single social welfare scheme. Both Central and respective State Governments contribute to MGNREGA funds. The lion’s share of the funding, however, is from the central Government (90 per cent). It is estimated for phase I and II that the average amount spent per district was approximately Rs.44 crore.¹
3.3. FUNDING OF MGNREGA

3.3.1 Financing Pattern

The central government bears the following costs:

- The entire cost of wages for unskilled manual workers.
- Seventy – five percent of the cost of material and wages for skilled and semiskilled workers.
- Administrative expenses as may be determined by the central Government. These will include, inter-alia, the salary and allowances of program officers, their support staff, and work site facilities.
- Administrative expenses of the Central Employment Guarantee Council.

The State Government bears the following costs:

- Twenty – five percent of the cost of material and wages for skilled and semiskilled workers.
- Unemployment allowance payable in case the State Government cannot provide wage employment within 15 days of application.
- Administrative expenses of the State Employment Guarantee Council.
3.3.2 Release of Funds

- The release of funds is based on State proposals rather than on predetermined allocations.

- Under the scheme, each State is supposed to formulate and submit a State Annual Work Plan and Budget Proposal (AWPB) to the Ministry of Rural Development, which will enable the Ministry to decide and sanction the budget likely to be used by the State in that year.

- The AWPB will be based on the demand for funds received from the districts and reflected in the labour budgets approved by the District Panchayat.

- The AWPB will also report on the use of the previous funds received by the State, as well as on the key performance indicators determined under the scheme. This will enable a qualitative assessment of the proposals received from a State Government to help decide the quantum of assistance likely to be released to it for a financial year. The actual release of funds to a State Government will depend on its actual utilization of funds previously released.

- After utilizing 60 percent of the funds released earlier, the district program coordinator (with the recommendation of the State Government) or the State Government (in the event that a State
Employment Guarantee Funds is established) may apply to the Ministry of Rural Development for the next installment out of the Central Employment Guarantee Fund.

- The State share of funds will be released by the State Government within 15 days of the release of the Central funds.

### 3.4. IMPACT ON ECONOMIC DEVELOPMENT

Economic development refers to increases in the standard of living of a nation’s population associated with sustained growth from a simple, low-income economy to a modern, high-income economy. Its scope includes the process and policies by which a nation improves the economic, political, and social well-being of its people.²

A large-scale public works programme like MGNREGA, creates purchasing power among workers. When those receiving tax breaks or working on MGNREGA 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.³
The value of this multiplier depends on the marginal propensity to consume (MPC) of those benefiting from government intervention. Clearly, the higher MPC, the greater the stimulus provided to demand. The great thing about MGNREGA 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.\(^4\)

Apparently, demand in the economy is being sustained by rural buying, which has received a boost from MGNREGA incomes. In addition to this, it promises transformation of rural livelihoods.

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.

This helps us understand that MGNREGA workers are not just consumers stimulating demand in an economy. They also include producers i.e. millions of small and marginal farmers forced to work under MGNREGA because the productivity of their own farms is no longer enough to make ends meet. MGNREGA will become really powerful when it helps rebuild this decimated productivity of small farmers and gives them a chance to return to full – time farming. Like in the Central Indian tribal belt, the 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.\(^5\)

Thus, a mutually reinforcing relationship between investment and income is catalyzed by MGNREGA. First, investment generates demand and income through the multiplier. Then, income stimulates investment via the accelerator, giving rise to a spiraling 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 utilization and happier expectations act as incentives for more investment. Under MGNREGA, farmers have come back to land they long abandoned, as increased output, in an atmosphere of renewed hope which spurs further investment. Thus, the Act has indeed led to an economic development.

3.4.1. Inflation

If rural markets are not competitive, then prices will rise with incomes.

Prof. Jean (2008) Dreze has risen again to defend the National rural Employment Guarantee Scheme. (Focus on inflation and defence budget). Let’s look at the microeconomics of the NREGS. The money that the government puts into the pockets of the NREGS recipient translates into a higher demand for food, household goods and other such items. This is called an “income effect”. The
supply curve is steep, and then people will be consuming the same quantity of goods as before, only paying more money for it. In such circumstances the money that the NREGS spends is not ending up with the intended recipients, but in the pockets of suppliers. Supply curves might be steep, because their markets are not competitive. It is not at all “outlandish” to claim that NREGS causes price levels in rural areas to rise. There is a good chance that a good fraction of the money that does not get siphoned off by officials ends up fattening the profit margins of rural shopkeepers and traders, (It follows that a better way to help the rural poor is to make the supply curve flatter. It’s done with better infrastructure, irrigation and information)

Defence expenditure too causes inflation. But not in the same direct, localized way as NREGS (besides, the fraction that is used to import military goods doesn’t contribute to domestic inflation). But the comparison is bogus.

3.4.2. Inflation Scenario in MGNREGA

Inflation happens when the total amount of money increases relative to the total amount of goods that are produced in the economy. If a scheme merely adds more money to the pot without increasing production, it will cause inflation. If you increase production and at the same time increase the total amount of money appropriately, there is not inflation (Jitega Bharat, April 12th, 2011).
If a pure income transfer, is done without raising the total amount of money, there will be no inflation.

So what is the NREGS doing? If it is merely printing money and handing it to unemployment people. (Who are not producing anything), then it leads to inflation. This inflation reduces the real incomes of people who are producing something. So in this case, it is a pure income redistribution scheme. Dreze knows that as he knows basic economics. But he cannot admit the truth because his job depends on being economical with the truth.7

He adds, “increases in defense expenditure are not justified on account of improving the lot of the “rural poor”, but rather, recognized as a necessary evil”. The NREGS, on the other hand, is solely justified on that basis. To the extent that it raises prices without increasing consumption, the scheme is an “unnecessary evil.

Prof Dreze is taken to task for saying that claims about the National Rural Employment Guarantee Scheme causing inflation are outlandish.

3.4.3 Inclusive Growth

Independent India has to acknowledge the critical role that NREGA has played in providing a measure of inclusive growth. It has given people a right to work, to re-establish the dignity of labour, to ensure people’s economic and
democratic rights and entitlements, to create labour intensive infrastructure and assets, and to build the human resource base of our country. For the first time, the power title recognizes the people’s right to fight endemic hunger and poverty with dignity, accepting that their labour will be the foundation for infrastructure and economic growth. The entitlements paradigm is still to be established in many states in the country. Second generation issues like the expansion of the categories of permissible works needs to be taken up with labour and the deprived continuing to be the central focus. The improvements must be to strengthen, not divert from their basic tenets. In the midst of the current economic slowdown, there is enough evidence that this kind of commitment can work to help reduce the slowdown (Aruna Roy and Nikhil Dey -2009).

3.4.4 Purchasing Power

There has been a “significant dent“ in poverty in rural areas as the implementation of MGNREGA has increased earning of rural households resulting in a increase in their purchasing power, Lok Sabha was informed (April 26, 2010).  

- “Increase in income has resulted in increase in ability of rural households to purchase food grains, other essential commodities and to access education and health care”.(Union Minister for Rural Development CP. Joshi).
This act was introduced with an aim of improving the purchasing power of the rural people.

The premier flagship program of the UPA Government has raised the productivity, increased the purchasing power, reduced distress migration and helped in creation of durable assets in rural India.

The policymakers hope to achieve the full potential of this employment program. They think that the purchasing power of rural people will increase and will result in declining of number of people below poverty line. Truly, the capital is available to supply gainful livelihood security for at least 100 days to the rural poor. The fate of the rural poor and their purchasing power remains in the hands of government official. Now the questions may arise, can the assessment of the implementation of MGNREGA by National Level Monitors (NLMs) check the irregularities? Can the development of innovative system by the State Government ensure transparency and accountability in MGNREGA’s implementation?

MGNREGA is an opportunity to put purchasing power in the hands of most needy parts of our population. The involvement of NGOs, social clubs, educated rural youth may help to increase the purchasing power of rural poor (Rajani kanta senth).
3.4.5 Multiplier accelerator synergy in NREGA

Dr. Mihir Shah (The Hindu- April 30, 2009),”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 is characterized by a sluggish agrarian economy marred by malnourished children and anemic women, and also suicide by farmers in distress. But there is no question that MGNREGA to 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 the Great Depression of 1929 – 33, changed this view forever. They showed that without the characteristic feature of capitalism.

Government intercession in a recession can take the form of various counters – cyclical policies to stimulate demand. One is to reduce taxes so that there is more money in the hands of taxpayers.

Converging MGNREGA with other programmes for rural livelihoods would carry this momentum forward in a positive upward spiral, which will broaden 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 MGNREGA 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.

There is no way this multiplier-accelerator synergy can fully come into play without the most important piece of the MGNREGA jigsaw falling into place – radical governance reform. MGNREGA 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 Panchayat, with a team of barefoot engineers and social mobiliser supporting them. Only then can MGNREGA 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 fossilized 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 MGNREGA cause, it is time to remind the state of its duty to protect the unsung heroes who continue to risk their lives to make MGNREGA 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 MGNREGA 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 forging entries both on job cards and the centralized 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 present 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. 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.

3.5. OVERVIEW OF MGNREGP INSTITUTIONAL NETWORK

The Process of the Mahatma Gandhi National Rural Employment Programme (MGNREGP) is through by some stakeholders. They play a major role in MGNREGP and they have more responsibilities for effective implementation of MGNREGP. The incidence of management responsibilities are at different levels:

I. VILLAGE LEVEL

A. GRAMA SABHA (GS)

The Act authorizes the Grama Sabha to recommend works to be taken up under MGNREGP, to monitor and supervise these works, and to conduct social audits of the implementation of the scheme. In addition, it is suggested that the gram sabha could be used extensively for facilitating the implementation of the
scheme. The Gram Sabha should be used as a forum for sharing information about the scheme, for instance, to help people to apply for registration. In addition the gram sabha has a crucial role to play in ensuring transparency and accountability. This involves, for instance, verifying applications for registration and conducting social audits.

B. GRAMA PANCHAYAT (GP)

The Grama Panchayat has a pivotal role in the implementation of MGNREGP. It is responsible for planning of works, registering households, issuing job cards, allocating employment, executing 50 percent of the works, and monitoring the implementation of the scheme at the village level. The implementation of MGNREGP involves a considerable organizational burden at the level of the Gram Panchayat. This involves registering families, issuing job cards, receiving application for work, maintaining records, allocating employment and so on, apart from planning and executing the ‘Panchayat Works’. It will be very difficult for these tasks to be effectively discharged by the ordinary staff of the Gram Panchayat. Therefore it may be advisable to appoint an ‘employment guarantee assistant’ in each Gram Panchayat for this purpose. The employment guarantee assistant could be called ‘Gram Rozgar Sevak’ or an equivalent term in the local language.
II. BLOCK LEVEL

A. INTERMEDIATE PANCHAYAT (IP)

The Intermediate Panchayat will be responsible for planning at the Block level, and for monitoring and supervision. It can also be given the responsibility of executing works from among the 50 per cent that are not to be executed by the Gram Panchayat.

B. PROGRAMME OFFICER (PO)

A Programme Officer will be appointed at the block level with necessary support staff for facilitating implementation at the block level. The Programme Officer will not be below the rank of the Block Development Officer (BDO). The Programme Officer will be a full-time dedicated officer, and may be selected from among Departmental personnel and may also be taken on deputation. Fresh recruitment may also be made on contract. The Programme Officer essentially acts as a ‘coordinator’ for MGNREGP at the block level. Among his/her important functions are, scrutinizing village plans; matching employment opportunities with the demand for work at the Block level; supervising the implementing agencies; safeguarding the entitlements of MGNREGP workers; ensuring that social audits are conducted by the Gram Sabhas; and responding to complaints. Ultimately, the chief responsibility of the Programme Officer as coordinator of MGNREGP at the Block level is to ensure that anyone who applies for work gets employment within 15 days. The Programme Officer will also
assist the intermediate Panchayat in these days, in its function. She/he will be answerable to the District Programme Coordinator (DPC).

III. DISTRICT LEVEL

A. DISTRICT PANCHAYATS

District Panchayat will be responsible for finalizing the district plans and for monitoring and supervising the MGNREGP in the District. District Panchayat can also execute works from among the 50 per cent that are not to be executed by Gram Panchayat.

B. DISTRICT PROGRAMME COORDINATOR (DPC)

The State Government will designate a Self-Help Group’s Chief Executive Officer of the District Panchayat, or the District Collector, or any other district-level officer of appropriate rank as District Programme Co-ordinator. The DPC shall be responsible for the overall coordination and implementation of the Scheme in the District.

C. IMPLEMENTING AGENCIES

In addition to Panchayat, line departments, NGOs, and Central and State Government Undertakings, Self-Help Groups (SHGs) can also be identified as implementing agencies.
D. DELEGATION OF POWERS

The state Government shall delegate financial and administrative powers to the District Programme Coordinator for effective implementation of the Scheme.

IV. STATE LEVEL

A. STATE EMPLOYMENT GUARANTEE COUNCIL (SEGC)

A State Employment Guarantee Council (or ‘State council’ for short) is to be set up by every State Government under section 12 of MGNREGA. The SEGC shall advise the State Government on the implementation of the Scheme, and evaluate and monitor it. Other roles of the State Council include deciding on the ‘preferred works’ to be implemented under MGNREGP, and recommending the proposals of works to be submitted to the Central Government by the State Government. The state council will prepare an Annual Report on MGNREGP, to be presented to the State Legislature.

The State Government will formulate MGNREGP, and the Rules pertinent to its implementation, in consonance with the Act. It will set up the SEGC and may establish a State Employment Scheme. It will ensure that the State Share of the MGNREGP budget is released on time. It will ensure wide communication of the Scheme and dissemination of information regarding its implementation. It will ensure all administrative, finance and technical support to the District Programme Coordinator, Programme Officer, Panchayat Raj Institutions (PRIs) and all other agencies involved in implementation. The State Government will
ensure that the agencies involved are trained for their tasks. It will establish a network of professional agencies to ensure technical support to the implementing agencies as well as for quality-control measures. It will undertake the regulative measure to ensure that the implementation of the programme at all levels is transparent and accountable to the public.

**B. Employment Guarantee Commissioner**

The State Government will designate an officer, not below the rank of a commissioner, as the State Rural Employment Guarantee Commissioner, responsible for ensuring that all activities require that are to fulfill the objectives of the Act are carried out. The Commissioner may also function as the Member Secretary of the SEGC. He may also be directed to ensure that the system of grievance redressed, social audit, application of the right to information, and other measures of public accountability and transparency are effective as well as responsive to the demands of MGNREGP workers and the community.¹⁰

**V. CENTRAL LEVEL**

**A. CENTRAL EMPLOYMENT GUARANTEE COUNCIL (CEGC)**

A Central Employment Guarantee Council will be set up by the Central Government. The Central Council shall be responsible for advising the Central Government on MGNREGP related matters, and for monitoring and evaluating
the implementation of the Act. It will prepare Annual Reports on the implementation of MGNREGP and submit these to Parliament.\textsuperscript{11}

**B. MINISTRY OF RURAL DEVELOPMENT (MORD)**

The Ministry of Rural Development central council will be responsible for ensuring timely and adequate resource support to the States and to the Central Council. It will undertake regular review, monitoring and evaluation of processes and outcomes. It will establish Management Information System (MIS) to capture and track data on every critical aspect of implementation, and assess the utilization of resources through a set of performance indicators. It will support innovations that help in improving processes towards the achievement of the objectives of the Act. It will support the use of Information Technology (IT) to increase the efficiency and transparency of the processes as well as improve interface with the public. It will also ensure that the implementation of MGNREGP at all levels is sought to be made transparent and accountable to the public.
END NOTES


2. Microfinance, Financial Inclusion, NREGA figure prominently in India’s 2010-11 Budget. Microfinance Monitor, Feb 26, 2010


4. Question and answer on NREGA. [http://nrega.nic.in/faq.pdf](http://nrega.nic.in/faq.pdf)


7. Mihir Shah Multiplier accelerator synergy in NREGA


