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The Mahatma Gandhi National Rural Employment Guarantee Act: Overview

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***Abstract:** The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is one of the flagship programmes of the Government of India. The programme aims to deal with rural poverty and unemployment by assuring economic security to the rural poor, by providing guaranteed wage employment when other employment alternatives are scarce or inadequate. This study aims to evaluate the macroeconomic impacts of the MGNREGA on the Indian economy by running counterfactual simulations with the aid of PEP-1-1 CGE model. The findings indicate that MGNREGA has increased the real GDP of the economy as well as household income and real consumption budget. The increase in household income is higher for the bottom quintile classes in comparison to the richer households.*

***Keywords:** MGNREGA, Unskilled Labor, GDP, Household Income, Social Accounting*

1. INTRODUCTION

India is one of the fastest growing economies in the world, but its growth has favored certain sections of society. The high growth pattern, as witnessed in India in recent years, has widened disparities for rural and urban dwellers and different classes of households. The rural population, dependent mainly on agriculture and allied activities, is presently trapped in poverty and deprivation. As agricultural employment is seasonal in nature, rural laborers, especially unskilled ones, remain unemployed or underemployed most of the time. Droughts and natural disasters cause rural-urban migration and add to the pressure on limited urban resources. Rural development is crucial to stimulate the inclusive and sustainable growth of the economy, and the employment guarantee scheme is a policy that addresses this issue.

The National Rural Employment Guarantee Act was introduced in 2005, which was renamed the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2009. The Act entitles every rural household to a minimum of 100 days of paid work within a financial year at the statutory wage rate for casual employment in creating rural assets such as road building, restoration of water bodies, and land improvement.

There have been many studies on the impact analysis of MGNREGA. Azam (2012) showed its positive impact on agricultural wages. Imbert and Papp (2013) observed that the program's higher private earnings (indirect benefits) are almost the same as wage earnings (direct benefits). Afridi et al. (2013) found that women's participation in the MGNREGA has improved children's educational outcomes. The programme has had a significant, positive impact on consumption expenditure, energy intake, and asset accumulation (Liu & Deiniger 2010; Ravi & Engler 2015). Thus, MGNREGA has become a powerful instrument for inclusive growth in rural India through its impact on social protection, livelihood security, and democratic governance (MoRD, 2012). We are not aware of any study that analyses the impact of MGNREGA in a general equilibrium framework. However, Sharma et al. (2015) conducted a study on impact evaluation of social protection programmes within a social accounting matrix (SAM) multiplier framework. In our study, the impact of MGNREGA expenditure, along with other programmes, in the year 2011–12 is analyzed. Due to the multiplier effect, output, income, and revenue increased, respectively, by 109%, 86%, and 18% of MGNREGA expenditure. In 2011–12, the MGNREGA programme generated 6.58 million person-days of employment. However, this study is not able to assess impacts on wages or prices, or long-term impacts due to limitations akin to the SAM multiplier framework. Furthermore, the SAM multiplier analysis tends to over-estimate impacts by a factor of 3-10 times when compared to CGE based analysis. CGE models are more useful to study the impact of changes in one part of the economy over the rest. Therefore, it would be useful to conduct a study in a CGE modeling framework, in which apart from inter-sectoral linkages, price and welfare effects can also be captured.

This study aims to evaluate the macroeconomic impacts of MGNREGA on the Indian economy by running counterfactual simulations with the aid of the PEP-1-1 CGE model. Macroeconomic impacts are measured in terms of changes GDP at basic prices, real GDP at basic prices, supply of unskilled labor, household income, and the real consumption budget of households. Furthermore, sectoral impacts are measured in terms of demand for types of labor by industry, demand for composite labor by industry, exports, and imports. This paper analyses the effects of four separate shocks on the economy of India, by using the comparative-static PEP-1-1 model (Decaluwé et al, 2012) calibrated to the SAM for the year 2007–08.

2. THE MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE ACT: OVERVIEW

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), implemented by the Ministry of Rural Development, is one of the flagship programmes of the Government of India. The programme aims to deal with rural poverty and unemployment by assuring economic security to the rural poor, by providing guaranteed wage employment when other employment alternatives are scarce or inadequate. The National Rural Employment Guarantee Act (NREGA) was ratified on September 7, 2005. The Act came into force on February 2, 2006 and was implemented in phases. In its first phase of implementation, 200 initial rural districts were covered. From 2008, it was later extended to cover the entire country with the exception of districts that had a 100% urban population. On October 2, 2009, the act was renamed as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The MGNREGA Act aims to provide at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. It legitimizes the right to get work/employment for all households in rural India. Its secondary objective is to strengthen natural resource management through projects that address the causes of chronic poverty such as drought, deforestation, and soil erosion, and thereby encourage sustainable development. The Act also mandates 33% participation for women.

3. LITERATURE REVIEW

Most The MGNREGA has attracted the attention of policy makers and researchers worldwide. Several studies evaluate the impacts of the MGNREGA (Singh, 2008; Khera, 2008; Mahapatra et al, 2008; Jandu, 2008; Khera & Nayak, 2009; Trivedi & Aswal, 2011; Jeyaranjan, 2011). The program's main objective is to provide employment to the rural poor when employment opportunities are scarce through rural asset creation, but it also has many multi-dimensional socio-economic impacts. The MGNREGA affects not only employment in rural areas, but also has indirect effects, such as income distribution across households, employment in other sectors, output of commodities and revenue to government (Sharma et al. 2016).

The program's most important feature is the self-selection criteria of beneficiaries. People who demand work at a given minimum statutory wage are eligible to get work. In this sense, it has universal coverage, though it is primarily meant for the poor. In general, only the poor and vulnerable may demand employment. Mainly, people with low educational attainment participate in MGNREGA activities, and it is mainly the poor who have low educational attainment. The negative correlation between education status and participation in MGNREGA also support it empirically (Joshi et al. 2014). Furthermore, there may be variation in the participation of the poor in the programme due to the local political economy, but the scheme is successful in reaching the rural poor, the marginalized, the vulnerable and women (Datta et al. 2012; Liu & Barrett, 2013).

4. ECONOMIC STRUCTURE OF THE COUNTRY IN 2007–08

The we used a 32-sector SAM for India for the year 2007-08 for this study. The procedure employed to construct this SAM can be found in Sharma et al (2015). The SAM of a country depicts the socio-economic structure of a country for a particular year. Based on the SAM used for this study, this section presents the economic structure of the country.

The share of service in gross value added (GVA) is highest for the year 2007–08 while that of agriculture and manufacturing sectors is almost the same at around 19% (see In the service sector, the highest contribution is from other services (25.05%) and trade (15.68%) followed by construction (8.53%). In the agricultural sector, other crops (4.13%), cereals (3.93%), fruits, and vegetables (3.07%) are the highest contributors. Non-metallic minerals products, metals and metal products (3.21%), mining (2.74%) and other manufacturing products (2.19%) are the highest contributors to the GVA of the manufacturing sector.

5. CONCLUSION

MGNREGA is one of the flagship programs of the government of India aiming to provide a guaranteed 100 days of employment at minimum statutory wages to rural unskilled workers while creating rural assets. The present study analyzed the macroeconomic impact of MGNREGA under a general equilibrium framework. The PEP-1-1 model was calibrated with a 32-sector SAM for India for the year 2007-08 for analysis. Four simulations were introduced to assess the impact of MGNREGA as well as three alternative policy scenarios (i.e. the withdrawal of MGNREGA and reallocation of its expenditure to educational services, medical services, and public administration).

MGNREGA had a positive impact on real GDP at basic prices, GDP at basic prices, the wage rate of semi-skilled labor, the supply of unskilled labor, household income, the real consumption budget of households, the demand for composite labor, and imports of products. MGNREGA had a negative impact on the consumer price index and the wage rate of semi-skilled labor. Therefore, it can be concluded that MGNREGA is more beneficial to the economy as well as to household income.

In the case of all three alternative policy scenarios, real GDP at basic prices, the demand for composite labor, income of poor households and the real consumption budget of households declined while consumer prices and the wage rate of skilled labor increased. Therefore, it can be concluded that alternative policy scenarios, as discussed above, are neither beneficial to the economy, nor to household income, particularly the poor.

The clear policy implication of this study is that MGNREGA should be continued and the magnitude of expenditure under the programme should be increased. As far as we know, this is the first study in terms of the impact evaluation of MGNREGA under a CGE modeling framework. Therefore, this study clearly adds to the existing literature on MGNREGA. The major limitations of this study are the assumptions of the PEP model and the SAM.

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