

Getting the Job Guarantee Plan Right

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Nobody can deny the need for a security net in a country with more than 250 million people below the poverty line – a threshold that is anyway quite modest to start with. In that context the proposed employment guarantee scheme (EGS) is a welcome idea. If nothing else, the EGS brings back rural poverty to the forefront of economic policy making – where it should be.

The Employment Guarantee Bill tabled in Parliament is, however significantly different from the draft Act proposed by the National Advisory Council. Proponents of the draft Act regard the Bill as falling well short of an effective employment guarantee. The draft Act proposed a work guarantee (restricted to 100 days of employment per household) at minimum wages applicable to all rural households. The Bill on the other hand offers a similar work guarantee but to only the Below Poverty Line (BPL) households and that too at a wage to be specified by the government rather than the minimum wage. Which is the right formulation?

A look at the data would inform our arguments. The last employment survey of the National Sample Survey Organisation (NSSO) was conducted during the agricultural year (July-June) 1999-00. According to it, the daily status unemployment rate (i.e., the proportion of person days during which persons are unemployed) is 7.1 per cent in the rural sector and 7.8 per cent in the urban sector. There is some seasonality in the unemployment rate, with the highest unemployment being observed between July and September and the lowest between October and December.

The numbers are much larger for rural labor households – who are intended to be the principal beneficiaries of the EGS. Among these households, the average unemployment rate is 11.7 per cent. It ranges from a low of 10 per cent in the period October to December to a high of 15 per cent in the period between July and September. It is clear therefore that the EGS can make a difference to these households especially in the slack season from July to September.

Should the EGS pay the workers the statutory minimum wage? If poor households could be readily identified, they could be directly targeted and given direct cash assistance to pull them out of poverty. Based on poverty counts, researchers have shown that the quantum of such transfers is not very large and is in fact smaller than what the government spends on anti-poverty programmes and food subsidies. Such programmes cannot be implemented because it is hard to identify poor households accurately. Not only can nonpoor households claim to be poor, the identification process will most likely be captured by the nonpoor in alliance with local officials and politicians. The appeal of the EGS lies in cutting through this problem. To receive the benefits of the EGS, participants must do physical labour in return for low wages. The program targets the poor because it is not attractive to those who are not needy. For such self-targeting to happen, and this seems a heartless thing to say, the statutory

minimum wage must be low enough (not in an absolute sense but relative to market earnings).

From the employment data, we find that in 9 out of the 15 major states, the observed wage for earnings members of rural labor households is **less** than the statutory minimum wage. These states are Assam, Bihar, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttar Pradesh. This means that if workers in EGS are paid the statutory minimum wage, then it might well attract participation from the nonpoor as well. A mechanical application of statutory minimum wages might therefore not preserve the self-targeting nature of the EGS.

But should not the government lead by example and insist that EGS workers be paid statutory minimum wages? Given the hazards of such a policy, the government should find other ways to enforce its minimum wage laws and not use EGS for this purpose. In Kerala, West Bengal, Tamil Nadu and Andhra Pradesh, observed wages closely approximate the statutory minimum wages and the dilemma of whether workers should be paid market wages or minimum wages is happily not there.

If the government does not bind itself to the statutory minimum wage, there is little logic in restricting the pool of potential participants to the BPL population. The classification of households into below poverty line and above poverty line was done to target food subsidies. This process encountered the perils of identification discussed earlier. There are as yet no studies that have evaluated the overall success of the enterprise. However, from previous experience here and in other countries, it does not seem rash to assume that the BPL identification would have been subject to errors. Indeed, administrators might well learn about the accuracy of the BPL tag by matching it to the participants in EGS. There is therefore a strong case for universal eligibility. , Further, because of self-targeting, there is little reason to restrict the work guarantee to 100 days of employment per household. The administrative burden of defining and tracking households is wasteful. It is preferable to offer guarantees (with or without restrictions) to individuals rather than households.

The waste and corruption in government spending has detracted support for EGS. It has been pointed out, however, that right to information laws (with supporting institutions) can greatly enhance accountability. If the EGS leads to qualitative and quantitative improvements in rural infrastructure, the social gains from the programme would be enormous. Agriculture, the principal rural activity, still lags in productivity. Moreover, evidence is beginning to come in that productivity growth in this sector slowed drastically in the 1990s. Despite the dynamism of the nonfarm sector, agriculture is still the sector that matters most to rural wages and poverty. Agricultural productivity growth is our biggest anti-poverty programme.

The potential gains from the spill-over impacts of EGS on rural infrastructure and agricultural productivity is illustrated by the high wage states of Kerala, West Bengal, Tamil Nadu and Andhra Pradesh. These also happen to be the states with the highest unemployment rates for rural labour households. This suggests a classical tradeoff between unemployment and effective minimum wages. The EGS would help in dealing with unemployment in these states although not fully. The average number of unemployed days per rural labour household per year ranges from 95 in Andhra Pradesh

to a staggering 166 in Kerala. The underlying problem, though, is one of low productivity and therefore low market clearing wages. If rural productivity was enhanced by EGS, unemployment in these states would fall and reduce the demand for EGS programmes.

The central virtue of the EGS is that it is self-targeted and can therefore direct resources to the truly poor. With right to information laws and constant evaluation by the government and civil society, it could also acquire a subsidiary virtue of being a rural infrastructure programme. If the design and implementation of EGS preserves these features, the social gains would be large. We have the distressing example of food subsidies where the instruments of intervention – the procurement regime, the Food Corporation of India and distribution by fair price shops – have become more hallowed than the ends. A commitment to ends rather than means would allow for pragmatic design that is subject to periodic review.