

Equity and Inclusion through Public Expenditure:  
The potential of the NREGS<sup>1</sup>

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*Some analytical issues*

The ongoing financial and economic crisis has had at least one significant impact on the world of ideas: it has brought back to the forefront the recognition of the crucial role of government expenditure in stabilising economies and averting or mitigating recessions. It is true that the continued opposition of some leaders, such as Angela Merkel in Germany or some Republicans in the US Congress, suggests that it may not be true to argue that "we are all Keynesians now". Nevertheless, the international acceptance of some of Keynes' more important propositions has not been so widespread for at least three decades. This in turn has meant that many arguments in favour of public spending that were jettisoned or simply disregarded until quite recently, are now back in vogue. And so at one level, proponents of such spending have less to prove.

One important Keynesian notion which has great applicability in the current context is that of the liquidity trap, in which banks are unwilling to lend to all but the most preferred and "safe" borrowers, but such borrowers are in turn unwilling to borrow because of prevailing uncertainties. The financial crisis spawned a "credit crunch", not only in the US where the crisis first broke, but also across the world, even in countries that at first had appeared to be relatively insulated. A credit crunch is associated with fear and market uncertainty, when expectations are bullish and private agents (whether they are investors or consumers) are unwilling to take risks. This means they tend to cut down on their own spending, and prefer to save. This paradoxically has the opposite effect of what is intended: since everyone spends less, economic activity slows down and reductions in output

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and employment follow. So the depressed expectations become self-fulfilling, and create a downward spiral or at the least, an unemployment equilibrium.

In such situations, monetary policy typically has little effect in reviving economies. Reductions in interest rate or easing borrowing conditions for banks cannot be indulged in beyond a point (the interest rate cannot go lower than zero, for example) and in any case do not ensure that banks who in the phase of what Kindleberger called "revulsion" will actually start lending normally. So the clear requirement is for fiscal policy, for the government to maintain an expansionary fiscal stance that will pull the economy out of the downswing. Fiscal deficits in such a context are not only acceptable but even necessary and essential to ensure economic recovery.

However, fiscal deficits too can come about in various ways. One option is to provide tax cuts in the hope that this will reduce prices and thereby cause increased private spending. This is indeed the route that several governments, including in India, have chosen at least to some extent. But another insight of Keynes was that tax cuts too will have less of an impact than direct spending because of the depressed state of expectations. Japan in the 1990s faced a prolonged recession: the government continuously provided both tax cuts and lower interest rates, but in a period of falling economic activity and very negative expectations of the future, people simply saved the money instead of increasing their own private spending. Similarly, tax cuts that have been recently applied in several developed and developing countries have had very limited effects in terms of actually increasing aggregate demand.

Another way that fiscal deficits are likely to increase in the current context is through the government having to provide large bailouts to financial firms and other corporations facing threat of closure or other very serious problems. These may be essential (or at least may be seen to be essential) to save the system as a whole from collapse, though there are always complex and nuanced judgements to be made about which firm deserves how much bailout, and what the implications would be if it is not bailed out. The implications are obvious for the effects of crony capitalism and differential treatment of firms - and there are other broader income distribution effects as well.

But Keynes and Kalecki, who both pointed out the criticality of fiscal policy in capitalism, were essentially talking about direct public expenditure, not

resources provided indirectly as tax cuts or bailouts. It is important to note that they were not concerned with the pattern of expenditure, and whether it is "productive" or unproductive". In fact Keynes famously argued that even completely unproductive expenditure "hiring men to dig holes and fill them up again" would serve the required purpose of reviving demand in a situation of excess capacity and unutilised resources. And the operation of the multiplier - the process by which each bout of spending generates additional spending of those whose incomes increase in the first round - ensures that this initial unproductive spending raises output and employment over time.

But we now know that the pattern of spending does indeed make a difference, especially in developing countries where resources are constrained in the medium term even if not in the short run. Obviously, public expenditure need not be completely wasteful: there are huge opportunities and avenues for productive investment and expenditure because of the huge development gaps that exist. But there is the further point that the value of the multiplier itself may not be a given, but may depend upon the pattern of expenditure. For example, public spending on employment schemes, and on health and education, not only generates more direct employment but also more indirect employment because those who are newly employed by this are more likely to consume a higher proportion of their incomes. Conversely, simply raising the pay of middle class and professional workers whose requirement for essential consumption forms a smaller part of their income, need not lead to much increase in consumption but may simply translate into greater saving, leading to a lower value of the multiplier.

What this means is that, even in a period when fiscal expansion is seen as necessary for economic regeneration, the direction of such public spending matters greatly. Fiscal policy that provides more wage income directly to unskilled workers and in rural areas is likely to be much more effective in increasing aggregate incomes than other forms of public spending, because of the higher value of the multiplier in such expenditure. And therefore, particularly in the current situation of global economic crisis and national economic slowdown, expenditure on the NREGS assumes very great significance.

The point that is being made here is that "inclusive" public spending, such as in the NREGS, is not only desirable from a social or welfare perspective - it also provides very direct economic benefits because it is much more effective in dealing with the economic situations of credit crunch and aggregate demand

slowdown. Because wage employment schemes tend to be self-targeting in terms of increasing the incomes of those who are most likely to spend their income rather than save it, they necessarily imply a higher multiplier effects that make the public expenditure more effective in reviving output and indirect employment. Therefore the NREGS is about more than equity; it is also a macroeconomic weapon against slump, and this is at least partly so because it does generate more equity.

A minor semantic point may be noted here. It is common to refer to those who work in the NREGS as "beneficiaries", because they are provided access to wage income which is otherwise scarce. Yet the work is arduous, physically demanding and still very low paid. And the main beneficiaries of such work are the local rural economy, through the contributions to infrastructure and land productivity that are made by the public works themselves, and the macroeconomy, because of the effect of the wage incomes on aggregate demand. Therefore, it may be best to abandon the implicitly patronising use of the term "beneficiaries" in such a context, and simply refer to workers in the NREGS.

### *The nature of the NREGS*

There is already a lot of work on how to maximise the productive potential of the NREGS, including work that incorporates the insights from particular experiences on the ground. Therefore I will not engage with these issues here, except to note that what is especially attractive about the scheme if it is properly implemented, in addition to direct employment and output effects, is the potential it has to increase both labour productivity and the quality of life in rural areas.

It is also increasingly recognised that the NREGS has the potential to transform rural economic and social relations at many levels. It is this capacity to engender change that is at once a source of strength and a weakness for the implementation of the programme. This is because it unleashes forces in the rural economy, society and polity which necessarily threaten the status quo and therefore also those who benefit from it, and so it is precisely where it is most needed that there is likely to be the most resistance to effective implementation. In fact, the huge potential of the NREGS has already been evident particularly in the enthusiastic response of local people, landless and marginal farmers and women

workers in particular, wherever information about the programme has been properly disseminated.

But there is also no doubt that this enormous potential is still incipient and requires to be substantially supported in many different ways. This is because the way that the NREGA has been framed, and the desired mode of implementation, amount to no less than asking for a social and political revolution. The programme reverses the way the Indian state has traditionally dealt with the citizenry, and envisages a complete change in the manner of interaction of the state, the local power elites and the local working classes in rural India. The NREGS is therefore completely different in conception from earlier government employment schemes since it treats employment as a right and the programme is intended to be demand-driven. Furthermore, the Act and Guidelines anticipate very substantial participation of the local people in the planning and monitoring of the specific schemes, to a degree which has not been at all common.

The very notion of employment as a right of citizens (even if it is limited to 100 days per household in the Act); of the obligation of the government to meet the demand for work within a specified time period, and to have developed a shelf of public works that can be drawn upon to meet this demand; of the panchayat participation in planning and monitoring; and the provision for social audit, are all very new concepts.

For this to work, it requires, at the minimum, two things: the ability and willingness of local government and panchayats to plan works and run the programme effectively; and the dissemination about the programme and its guidelines to local people who can make use of it to register, demand work and run social audits. It should be evident that neither of these is very easy to attain, especially very quickly, and they require both much more capacity building and administrative support at local government levels, as well as significant mobilisation among the people who may be workers under the scheme.

Obviously, all this will take time to permeate down to the local levels. So to start with, it is only to be expected that there will be an uneven record of implementation as well as the presence of a large number of problems that require correction. There are bound to be difficulties and time lags in making local officials and others responsive to this very different approach. And of course, the NREGS necessarily challenges the prevailing power structures, in some cases quite

substantially. Therefore attempts to oppose or subvert the correct and full implementation of the scheme in rural areas are only to be expected. Nevertheless, the extent to which the scheme is being implemented with even partial success in many parts of the country, including some very backward pockets, is already a source of optimism.

### *Social inclusion in the NREGS - the experience so far*

It has been noted in this paper that the NREGS is necessarily "inclusive" at the most basic level in economic terms, because it self-targets those who are willing to engage in arduous physical work for a daily wage, in other words the poorest sections of society. But it is also emerging that the NREGS tends to be more socially inclusive as well, that is that it disproportionately involves women, SCs and STs as workers in the scheme. This was not entirely expected when the law was framed. In fact, it was deemed necessary to ensure a minimum reservation of 30 per cent of the jobs for women. And fears were expressed that the more marginalised social groups would also be excluded from the benefits of wage employment through this scheme.

Table 1 describes the participation of women in the NREGS thus far, and compares it to the rural work force participation of women by state as well as for all-India (in terms of share of all workers, both principal and subsidiary status). The share of rural workforce data relate to 2004-05; the share of NREGS work relates to all work from inception until November 2008. Of course it should be noted that the official data on women's work participation excludes the unpaid work especially in social reproduction, which most women are necessarily involved in and which is largely unrecognised and unrecorded. But as far as recognised economic activity goes, it is clear from Table 1 that for India as a whole, women are participating in NREGS much more actively than they participated in all forms of recorded work.

For India as a whole, women workers account for nearly half the work days in NREGS so far, while they accounted for only 36 per cent of all rural workers in 2004-05. This amounts to a difference of more than one-third. But this varies widely across states, and the pattern of state-wise variations is extremely interesting. Women's involvement is much higher than their overall work participation in the southern states, and especially in Kerala, where women's participation in paid work has traditionally been low. Tamil Nadu, which has had

high women's work participation, shows even higher involvement in the NREGS, with women accounting for nearly 80 per cent of the work under this scheme.

Table 1: Participation of women in NREGS work

	Share of women		Difference
	In total rural workforce	In NREGA	
Andhra Pradesh	44.1	58	13.9
Assam	26.5	27.8	1.3
Bihar	21.2	25.6	4.4
Chhattisgarh	44.7	42.2	-2.5
Gujarat	45.5	38.1	-7.4
Haryana	34.4	32.2	-2.2
Himachal Pradesh	47.4	43.2	-4.2
Jammu & Kashmir	31.0	0.4	-30.6
Jharkhand	36.0	30.3	-5.7
Karnataka	41.9	51.6	9.7
Kerala	32.6	66	33.4
Madhya Pradesh	38.3	42.6	4.3
Maharashtra	44.5	44.1	-0.4
Orissa	35.2	35	-0.2
Punjab	34.2	0.2	-34.0
Rajasthan	42.6	69.6	27.0
Tamil Nadu	43.4	79.1	35.7
Uttaranchal	45.1	14.3	-30.8
Uttar Pradesh	30.4	32.4	2.0
West Bengal	22.8	21.3	-1.5
<b>India</b>	<b>36.2</b>	<b>48.9</b>	<b>12.7</b>

Sources:

1. Share of workforce calculated by applying NSS 2004-05 usual status work participation rates of rural men and women (PS+SS) to Census rural population projections for 2004.
2. Share of NREGS work from [www.nrega.nic.in](http://www.nrega.nic.in), accessed on 11 January 2008

Among the northern and eastern states, however, thus far the pattern has been generally different, with proportionately fewer women working in the NREGS than in other rural work. These gaps are especially marked in Punjab,

Uttaranchal and Jammu and Kashmir. The outlier in the north is Rajasthan, where well above two-thirds of the work days have been by women, which is more than fifty per cent higher than women's share of all rural workers. In several states women's participation is not only lower than their share of total workers, but is also well below the mandated 30 per cent. This needs to be investigated further, and corrective actions will be required.

Where the NREGS has led to a significant increase in women's paid work, there are likely to be substantial social changes as well. These would be in addition to other changes that have already been noticed during field studies, such as the decline in distress migration and the improvement in food consumption among certain families. Not only does the NREGS provide money incomes directly to those women participating in it, in many states the wage delivery mechanism is linked to the opening of post office or bank accounts. This involves the access of a much greater number of women in institutional finance from which they have been largely excluded. Intra-household gender relations are also likely to be affected, but these changes will occur over a longer time and would require more extensive sociological study to identify. Nonetheless, this greater participation of women in the NREGS, particularly in some states, is clearly a positive indicator that shows the inclusive potential of the programme in unanticipated ways.

Other social groups that tend to be economically marginalised in India include Scheduled Castes and Scheduled Tribes. For these categories as well, there appears to be disproportionate participation in NREGS, relative to their share of population, as indicated in Tables 2 and 3. In the case of SCs, this is not unexpected, because they typically also lack access to land and other property and are disproportionately represented among rural labourers. Even so, the experience thus far suggests that fears of their exclusion from a scheme that provides wage incomes have been largely unfounded, at least according to the official records. Only in Jammu and Kashmir has their participation been significantly lower than their share of population - everywhere else among the major states it has been higher.

For STs, however, the higher rate of participation in the NREGS was not really expected, also because geographical remoteness and the difficulties of topography could be expected to make their access to work sites more difficult and because there is evidence that in many areas they have been generally



excluded from government schemes that could add to their money incomes. Therefore, this trend is definitely to be welcomed. It should be noted, however, that one reason for the positive differences emerging in Table 3 could be the choice of districts where the NREGS has been implemented from the inception. Since the initial 200 districts were chosen on the basis of their backwardness, and these tend to be tribal-dominated areas as well in many states, it may not be surprising that tribals have been disproportionately working in NREGS at the aggregate state level.

Table 2: Share of SCs in NREGS work

	Share of SCs		Difference
	In total population	In NREGA	
Andhra Pradesh	16.2	26.5	10.3
Assam	6.9	9.8	2.9
Bihar	15.7	53.3	37.6
Chhattisgarh	11.6	16.8	5.2
Gujarat	7.1	12.1	5
Haryana	19.3	59.6	40.3
Himachal Pradesh	24.7	31	6.3
Jammu & Kashmir	7.6	0	-7.6
Jharkhand	11.8	18.8	7
Karnataka	16.2	27.5	11.3
Kerala	9.8	16	6.2
Madhya Pradesh	15.2	23.3	8.1
Maharashtra	10.2	19.1	8.9
Orissa	16.5	23.5	7
Punjab	28.9	97	68.1
Rajasthan	17.2	29.6	12.4
Tamil Nadu	19	58.8	39.8
Uttaranchal	17.9	54.3	36.4
Uttar Pradesh	21.1	27.1	6
West Bengal	23	39.1	16.1
<b>India</b>	<b>16.2</b>	<b>30.9</b>	<b>14.7</b>

Sources:

1. Share of population from Census of India 2001.
2. Share of NREGS work from [www.nrega.nic.in](http://www.nrega.nic.in), accessed on 11 January 2008.

Table 3: Share of STs in NREGS work

	Share of STs		Difference
	In total population	In NREGA	
Andhra Pradesh	6.6	13	6.4
Assam	12.4	33.64	21.24
Bihar	0.9	1.2	0.3
Chhattisgarh	31.8	39.3	7.5
Gujarat	14.8	55.3	40.5
Haryana	0	0	0
Himachal Pradesh	4	7.8	3.8
Jammu & Kashmir	10.9	28.1	17.2
Jharkhand	26.3	41.3	15
Karnataka	6.6	15.2	8.6
Kerala	1.1	8.6	7.5
Madhya Pradesh	20.3	41.8	21.5
Maharashtra	34.4	53.4	19
Orissa	22.1	34	11.9
Punjab	0	0	0
Rajasthan	12.6	23.9	11.3
Tamil Nadu	1	1.7	0.7
Uttaranchal	3	1.6	-1.4
Uttar Pradesh	0.1	5	4.9
West Bengal	5.5	14.8	9.3
<b>India</b>	<b>8.1</b>	<b>24.1</b>	<b>16</b>

Sources:

1. Share of population from Census of India 2001.
2. Share of NREGS work from [www.nrega.nic.in](http://www.nrega.nic.in), accessed on 11 January 2008.