The Strangulation of the MGNREGS*

Prabhat Patnaik

The MGNREGS was introduced by the UPA-I government despite opposition from the neo-liberal lobby within it, owing inter alia to the active intervention of the Left which was supporting that government from outside. It was restrictive from the beginning: it promised a maximum of only 100 days of employment in a year, and that too for just one member of a rural household. But within those restrictions it conferred an economic right: employment could not be refused and if it was not provided within a certain period then the person seeking employment had to be paid a compensation. It was, in short, a demand-driven programme: employment had to be provided on demand.

During UPA-II itself the backsliding on MGNREGS had begun. For many years the budgetary allocation for the programme was pegged at around Rs.60,000 crores, which meant making no allowances for the rise in prices, the increase in the size of the work-force (and hence, even if other things remained the same, the increase in the number of job-seekers) and of course the deepening agrarian crisis. Whenever the issue of this niggardliness was raised in the parliament, the government's stock answer was that since MGNREGS was a demand-drive programme, the budgetary allocation for it was of no great significance; the actual allocation would be revised according to demand, and would be increased if it was found that a large number of persons were indeed asking for employment under the scheme.

The problem with this answer is that even if the allocation for MGNREGS gets increased because of higher demand, this increase takes time, which means the building up of wage arrears, distress in the interim for the MGNREGS workers, and hence a discouragement even to seek jobs under the MGNREGS. Thus low initial allocation for the MGNREGS has an effect on the demand for jobs under the scheme itself, instead of demand being unaffected by the initial allocation which can supposedly be increased later to accommodate it. And when the non-payment of wages chokes off demand for jobs under the scheme, this fact is used to justify retrospectively the low initial budgetary allocation for the scheme, and becomes an argument for keeping the allocation low for the next year as well.

This is nothing else but the "discouraged worker effect" in a different context. Just as in the advanced capitalist countries in a period of high unemployment, many unemployed workers, having no hope of finding a job, simply drop out of the work-force (in the sense of not even looking for work), likewise the delay in wage payment in rural India discourages many unemployed workers from even seeking work under the MGNREGS. Thus low initial budgetary allocations for MGNREGS have the effect of introducing a "discouraged worker effect".

The Modi government has carried this practice of making low allocations for the MGNREGS to its limit. Modi had been opposed to the MGNREGS to start with, and even though his government has not dared to abolish it altogether, it has strangulated it through low allocations. In 2019-20 the actual expenditure on the scheme was Rs. 71687 crores. For 2020-21 however the budgetary allocation was brought down to Rs.61500 crores; but that was the year when the lockdown had led to a massive trek back to the villages of lakhs of migrant labourers from the cities who suddenly found themselves without work, without incomes and without shelter. The only thing that saved them when they returned home was the MGNREGS. There was a sudden increase in the demand for work under the scheme and the government was forced to increase the allocation under the scheme to Rs.111500 crores.

But the next year, i.e. 2021-22, the budgetary allocation was again cut to Rs.73000 crores, a full Rs.38500 crores less than the previous year. This could have been justified, even if partially, if the economy had recovered and if jobs had become available to the same extent as before the lockdown. But it is well known that output (GDP) has barely recovered to the same level as before; and employment still continues to be below the pre-lockdown level because the employment-intensive petty production sector continues to languish. The demand for work under the MGNREGS therefore would be at best only slightly lower than last year. A slashing of the budgetary allocation for MGNREGS by Rs.38500 crores compared to last year, and pegging this allocation at the same level as the actual expenditure in 2019-20, amounts therefore to a strangulation of the programme.

True, the government has just announced, on November 25, that it would raise the allocation by Rs.10000 crores, but this is woefully inadequate. Wage arrears have already got built up; the most conservative estimate one can make in the current situation is that the entire budgetary allocation for the year has got used up even before seven months of the year are over. Even at the current pace of implementation of the MGNREGS, i.e. without taking into account the “discouraged worker effect” which arises because of low initial budgetary allocation and which should be countered by an increase in the pace of implementation, a minimum additional amount of Rs.30000 crores will be needed for the programme; of this sum, the government has provided only Rs.10000 crores. In fact the financial statement for the scheme shows on November 25 a negative balance of Rs.9888 crores (The Hindu Nov.26); and even if the additional allocation just about covers this deficit, there would still be four months of the current year left.

The government’s niggardliness is both inexplicable and unwise. It is inexplicable because if the government spends Rs.100 on MGNREGS, then, given the statutory 60:40 break up of this expenditure between the wage-bill and the material bill and assuming that workers spend 40 percent of their wages on foodgrains, Rs.24 would be spent on foodgrains. Since foodgrain stocks are already available with the government, this would mean that Rs.24 will come back to the government immediately out of this Rs.100. If the entire additional expenditure is financed by a fiscal deficit, then the actual fiscal deficit will be only three-quarters of this after the first round of expenditures.

True, the Food Corporation of India’s accounts no longer figure in the government’s budget (they used to earlier); but that still should not blind us to the basic fact that a quarter of what the government spends would come back to it immediately. Likewise, the various rounds of expenditure that this initial spending would generate, by the material producers spending a part of what they get, and those on whose goods they spend in turn spending a part of what they get, and so on, would also create second and third-order demand for foodgrains which would reduce FCI stocks, and hence save storage and interest costs to the government.

Thus, even if the government spends on MGNREGS by simply increasing the fiscal deficit, it would have no adverse effects whatsoever and much of it will come back to the government via the FCI, so that the actual fiscal deficit (taking the government budget and the FCI together) will be much less than the apparent fiscal deficit (taking the budget alone). (In fact if we assume that all those, to whom income accrues directly or indirectly because of government spending on MGNREGS, spend their income wholly on consumption, then the entire spending by the government will come back to the FCI, i.e. the actual fiscal deficit will be zero). Globalized finance capital, and its agency the IMF, may insist on counting what appears in the budget alone as fiscal deficit, but their doing so for purely ideological reasons should not blind us to the reality that the FCI is part of the government itself.

The government's niggardliness is also unwise because the non-foodgrain expenditure that its spending would generate, via the material component of MGNREGS projects, and also via the workers spending a part of their wages (60 percent by our assumption) on non-foodgrains, and the second and third round effects of such spending, would be mostly on goods produced by the small-scale and informal sector. These goods are much more employment-intensive; and hence the recovery in employment will be much more pronounced.

It follows that no matter how government spending is financed, a rupee of government expenditure is better spent on the MGNREGS than on any other expenditure item. The government alas is too blind to see this.

*** This article was originally published in the Peoples Democracy on December 5, 2021.**