

NOTE

NREGA IS UNSUSTAINABLE

Bharat Jhunjhunwala writes :

The success of the Congress in the recent elections is attributable in part, at least, to the Rojgar Guarantee Programme—NREGA. Poor people have certainly got relief by getting 100 days employment. Migration to the cities has reduced. Farmers in Punjab are finding it difficult to get labour from Bihar because they have some alternative employment available under NREGA near their homes. It is only fair that the Congress has got political advantage of the scheme. The BJP never had any programme to reach relief to the poor. Poverty is not a part of the BJP ideology. The Left, despite its tilt towards the poor, messed it up by being aggressive in Nandigram and Singur.

However, there are long term problems with NREGA which the Congress will ignore at its peril. On first sight, NREGA appears to be along Gandhiji's thinking. The Mahatma had said that he would rather give jobs to the naked instead of clothes. People could buy clothes from the income. But 'jobs', for Gandhiji, meant commercial market-driven employment, not doles given out under NREGA. Under commercial employment, the farm hand produces wheat that is sold in the market. Both the worker and the employer are not dependent upon government assistance in undertaking this activity. Such employment empowers the workers. They can stand up and demand their rights from the government because their livelihood is not dependent upon the government. The government gains as well. The industrialist pays taxes on the goods produced. Such employment is a win-win proposition for all concerned. The worker gets income, the employer makes profits and the government collects taxes. Such employment is sustainable.

Employment generated under NREGA stands on an altogether different footing. The government first imposes tax on running businesses to collect taxes for making these expenditures. Some businesses fold up due to this high burden of taxes. That leads to increase in the number of unemployed and more demand for relief under NREGA. The government has to impose yet higher taxes on the remaining businesses to collect the revenues necessary to foot the larger bill under NREGA. Additionally, businesses have to face higher wage costs. Workers refuse to migrate to places where they are needed. The government made expenditures for providing employment to workers of Bihar to uplift them. This led them to demand higher wages from farmers of Punjab and has raised their labour costs. Businesses have to face two types of pressure from NREGA—higher taxes and higher wages. In this way a regressive cycle of increasing taxes, increasing wages and reducing commercial employment is established.

The fate of unemployment compensation programmes in western countries confirms these observations. Nobel Laureate Prof Edmund Phelps says : "Although such programmes have been substantial in Europe and the US, the working poor remain as marginalized as ever. Indeed, social spending has worsened the problem, because it reduces work incentives and thus creates a culture of dependency and alienation from the commercial economy, undermining labor force participation, employability, and employee loyalty." The alternative according to Prof Phelps is like this: "The best remedy is a subsidy for low-wage employment, paid to employers for every full-time low-wage worker they hire and calibrated to the employee's wage cost to the firm. The higher the wage cost, the lower the subsidy, until it has tapered off to zero. With such wage subsidies, competitive forces would cause employers to hire more workers, and the resulting fall in unemployment would cause most of the subsidy to be paid out as direct or indirect labor compensation. People could benefit from the subsidy only by engaging in productive work." In truth the government is reducing the opportunities of

commercial employment through NREGA which in any case won't be sustainable in the long run. □□□