



## **Employment Guarantee, Not Employment Subsidy Approach Suits Indian Conditions**

A liberal welfare state tries to ensure equitable distribution of the development pie by resorting to myriad ways of redistributive allocation of values among its citizens. One such measure includes employment guarantee scheme for the toiling masses to ensure them work for minimum number of days on pre-decided subsistence wages. It is with this objective that the National Rural Employment Guarantee Scheme (NREGS) was launched in all the districts of this country. This follows on the back of various employment generation and food for work programmes including Integrated Rural Development Programme (IRDP), Community Development Programme (CDP) and Swarnajayanti Jawahar Rojgar Yojna (SJRY). NREGS is actually predicated on the experiences and knowledge gained during implementation of all these previous schemes.

Since then, many observers have come up with suggestions and proposals for further fine-tuning of this flagship employment guarantee programme. There has been a proposal recently which espoused the idea to provide employment subsidies to employers instead of providing guaranteed jobs through state-run employment generation programmes like the NREGS. The underlying assumption of the said proposition is the belief that such an approach would create jobs more efficiently and effectively than done by the present employment guarantee scheme.

Nobel Laureate Prof Edmund Phelps is quoted as saying, "Although such programmes have been substantial in Europe and the US, the working poor remain as marginalised 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 labour force participation, employability, and employee loyalty."

Proposing an alternative, Prof Phelps says, "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 labour compensation. People could benefit from the subsidy only by engaging in productive work.”

It is believed that the employment generated through this alternative scheme that Prof Phelps proposes, shall be an asset for the economy instead of a burden. Many also believe that the present approach provides for taxes to be imposed mainly on urban business enterprises while money is spent in rural areas. The urban businesses have to bear the tax burden while the benefits are reaped by faraway villages. The business sector suffers on account of higher wage rates. The availability of some employment in the villages acts as a disincentive for workers to move from labour-surplus to labour-scarce areas because some employment is available locally under the Rojgar Guarantee Scheme. They bemoan the fact that the business enterprises do not only have to pay higher taxes, but also have to pay higher wages. It is believed that if Prof Phelps’ suggestion is accepted then the taxes paid by businesses are recouped by receiving employment subsidies. The net outgo on wages shall be reduced due to subsidies thus received.

While the suggestion for subsidy to labour-intensive industries does make some sense, but going whole hog for Prof Phelps’ proposed alternative definitely does not, more so in the Indian context. To begin with, notwithstanding the supposed failure of the employment guarantee scheme in the developed countries, they still have not been able to replace the same with the ‘employment subsidy’ approach as advocated by many including Prof Phelps.

This is notwithstanding the fact that such employment guarantee schemes have been in force for over 50 years in most of these developed countries. Prof Phelps’ proposal is fraught with loopholes and complexities and prone to more corruption than one thinks. Moreover, it also does not promise to increase the job opportunities for the jobless as has been proved to be practicably possible by the present employment guarantee scheme, the many implementation-level hitches and glitches notwithstanding.

First and foremost problem with this approach is the moral hazard of passing off the extant employment in a firm to claim wage subsidies falsely and dishonestly. The employers led by petty and comprador bourgeoisie, instead of creating new employment, would try to ingenuously cheat the system for claiming the subsidies. After all, we don’t necessarily have a database of employed manpower of all such firms and industries. And such a database, even if created and maintained, may not be completely sacrosanct. Our experience tells us as to how such database is often tinkered and tampered with, often to the advantage of the high and mighty.

So, any system of working out compensatory subsidies for employers by establishing contrived linkages to employment generation is going to be very complex and is also likely to involve a lot of scope for discretion and subjectivity for the bureaucracy than the extant system. There is definitely no need to compensate big businesses for higher taxes levied on them as there are already multiple government schemes and incentives for performing enterprises and businesses. Moreover, even after paying those taxes, they are still left with decent profit margins to go shopping the world over for acquiring many of the renowned companies even in times of recession. Over the years, our tax and incentives structure have come to be comparable with the best in the world.

The assumed fear that such employment guarantee scheme actually encourages mediocrity and dependence on government is far from the truth. The present system is an incentive-based transparent system where a more productive worker can earn more if she/he gives more output and her/his wages shall correspondingly be higher compared to others whose output is less. The fear that villages unduly gain at the expense of towns is unwarranted, to say the least. The fact remains that towns are always better endowed in terms of basic services and facilities than those found in the villages. The employment guarantee scheme not only ensures assured employment for a household throughout the year (considering 100 days for each adult member of a family including the handicapped), it also envisages creation of basic infrastructures in the countryside.

It is believed that the progressive creation and availability of such infrastructures and employment opportunities in the countryside shall discourage people from migrating to the urban areas where basic infrastructures and services are already feeling pressure of increasing population. It shall also bridge the gap between rural and urban areas in terms of socio-economic indicators which are quite uneven at the moment. It is believed that wages in the urban areas shall go up consequent to reduced emigration and reduced availability of workers from the rural area. With less workers competing for more works, the real wages in urban areas shall go up which would continue to attract a minimal number of workers from the countryside as per changing demand and supply curve. The increased wages for urban workers shall be in keeping with the increased expenses required for urban living eventually enabling them to lead a better life than has been possible otherwise.

The apprehension that reduced availability of low wage workers shall either lead to shut-down of enterprises in the urban areas or relocation of many of them to the rural areas is also unfounded. At a time when we are talking of liberalisation and globalisation, we definitely should have no reason to think of the industries which shut down as a result of having to pay higher wages to the workers, more so when multiple government incentives are available. The enterprises need to learn to survive the cut-throat competition in the market. They always have the option of shaping up or shipping out. Moreover, such an apprehension remains far-fetched as the pool of low wage workers shall still be larger in this unreasonably populous country despite local availability of guaranteed employment in the villages as there still are many push and pull factors which drive people to the urban areas. As such, there is no reason to panic.

Still, if some of them decide to move to low-wage areas which are likely to be underdeveloped, it is all the better as that would lead to infrastructural and capacity development of such areas and further improvement of quality of life there which eventually may see rise in labour costs in those areas as well. The cycle may go on till all parts of the country are more or less equitably developed. The government can actually think of giving incentives for relocation or establishment of new industries including labour-intensive ones in the backward and underdeveloped areas.

The belief that the current employment guarantee approach reduces labour force participation and employability of a worker is also not true. The experience from all over the country tells us that labour force participation in the economy has only increased as a result

of operation of such a scheme and as a result, per capita income has also gone up. The multiplier effect of such a rise has been perceptible in the relatively high economic growth rates and other development indicators of our economy, recession notwithstanding. Besides, an employment guarantee scheme is also immune to the negative impacts of a recession. While the government shall have more reason to persist with such employment guarantee schemes in difficult times like recession, the employers, finding reduced demand and market for their products, would shut down overnight rendering all the workers under their dispensation jobless.

Again, contrary to the belief, the employability of a worker is also not compromised because of in-built incentive structure in such employment guarantee schemes as the worker learns to be more hard working to earn higher wages by giving better output and by being more productive. The various training programmes given to people under the said scheme and under many other schemes do give the workers a choice to decide for themselves as to what do they intend to do. The dovetailing and convergence of many such cognate schemes and programmes further could yield better results with better value allocations among the hoi polloi. The cascading multiplier effects and resultant pay offs for the country as a whole is bound to be better and greater than commonly understood.

The supposed acquisition of newer skills under the employment subsidy approach is quite problematic and is more at the level of assumption than a reality. The belief that the innocent, ignorant and gullible workers would get better jobs and acquire better skills as per their choice and aptitude moving from one industry to another for job-shopping is misplaced and fraught with danger. The danger emanates from the feared exploitation of workers by these enterprises which are likely to take advantage of their helplessness and non-possession of requisite skills by paying low wages and forcing them to work in unhygienic and undignified working conditions.

Most of these enterprises are not likely to be enlightened enough to do a charity by employing an ignoramus and inexperienced worker to teach him/her newer skills to employ him/her later. However, the spirit of the proposal here is well taken and one does feel that the scope and ambit of such employment guarantee scheme needs to be further broadened and diversified. It could also be creatively fine-tuned to offer better wages and better opportunities to the people. But one has to give the scheme some time to evolve naturally and be more promising and better suited to the requirements of the employment-seeking workers.

After all, the Constitutional Right to Work, as envisaged in the fourth chapter of the Indian Constitution detailing directive principles of state policy, which took five decades to be translated into a reality, is likely to be some more time to be better customised to the requirements and needs of the target people. The very fact that NREGS, after being launched selectively in some districts of the country for guaranteed employment in the rural areas throughout the year, has now been extended to the entire country, is itself a big achievement of sorts.

The belief that the alternative proposal is corruption-proof compared to the present one is also not true as already pointed out above because of the element of discretion and subjectivity inherent therein. The extant scheme because of the transparent system of job-card, fixed responsibility to provide jobs within fifteen days of receipt of an application demanding work or to pay unemployment allowance in case of failure of the same and the provision of social

audit is much better placed to do the needful. The provision of job cards, public hanging of Muster Roll, public notice of details of an on-going works and Muster Rolls and a participatory social and financial audit of all the aspects of the schemes ensure better transparency and accountability than any other scheme. The Right to Information plugs the loopholes and fills the gaps, if any left anywhere.

Yes, one does feel that there is lot of scope for further improvement of the scheme. One is sure that as more feedback from the field is received and fed into the system to further fine-tune it, the extant scheme shall respond better to the tasks and objectives it is supposed to realise. To give some credit to Prof Phelps, his proposal can be tried on an experimental basis in selected areas as a pilot project rather than completely replacing the extant scheme. After all, it is too early to pronounce a judgement on the success and failure of the same. And in any case, an ingenuous and creative mix of the two conceptions rather than an exclusive reliance on any of the one can always be a better idea. One hopes that NREGS would evolve with time in keeping with the objective of realising and ensuring growth with equity and justice.

Also, with the failure of the invincible capitalist system of economic development as represented by the Washington Consensus, it is all the more accepted and acknowledged that we can no longer depend on market forces for taking up social responsibilities. Rolling back the state completely is no longer an option. The state has to be there as a regulator and disciplining force with minimal responsibilities of maintaining law and order, dispensing justice and building an equitable society. So, the 'employment subsidy' approach, as dependent on private enterprises, is just not acceptable in preference to the employment guarantee approach.

## Salient Points

- NREGS is actually predicated on the experiences and knowledge gained during implementation of previous schemes.
- Social spending has worsened the problem because it reduces work incentives and creates a culture of dependency.
- Developed countries, not been able to replace the same with the 'employment subsidy'.
- No need to compensate big businesses for higher taxes levied on them as there are already multiple government schemes and incentives for performing enterprises and businesses.
- The fear that villages unduly gain at the expense of towns is unwarranted.
- It shall bridge the gap between rural and urban areas in terms of socio-economic indicators.
- Government can think of giving incentives for relocation or establishment of new industries including labour-intensive ones in the backward areas.
- Labour force participation in the economy has increased as a result of operation of such a scheme and per capita income has also gone up.

## Glossary

**Espoused:** to make one's own

**Bemoan:** to express distress or grief over

**Hog:** selfish person

**Comprador:** a native agent of a foreign business house

**Contrived:** obviously planned or forced

**Dovetailing:** to join or fit together compactly