

EMPLOYMENT GENERATION PROGRAMS AND LONG TERM DEVELOPMENT:
THE CASE OF INDIA'S NATIONAL RURAL EMPLOYMENT
GUARANTEE ACT

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EMPLOYMENT GENERATION PROGRAMS AND LONG TERM
DEVELOPMENT: THE CASE OF INDIA'S NATIONAL
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ABSTRACT

The impact of neo-liberal policies on labor and employment opportunities in developing country like India has been less than satisfactory. The purpose of this dissertation is to study the role of government in employment generation and the impact of employment generation on long term development. In order to do so, the case of India's National Rural Employment Guarantee Act has been taken as a case study. The study argues that employment generation programs by the government is not only important to create jobs, but is also necessary for long term development of the country. The study concludes the impact of an employment generation program is not limited to a narrowly understood concept of economic growth. Instead, by using an alternate understanding of development-namely the capability approach, it can be concluded that employment generation has long lasting impact on the development of rural communities. Field work in two states of India have been used as evidence to support this argument. To make the case for employment generation various approaches have been taken including Marxian, post colonial and heterodox economic approaches like Keynesian and Kaleckian economics.

APPROVAL PAGE

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CHAPTER 1

INTRODUCTION

The Right to work is a fundamental human right as declared in the United Nations Universal Declaration of Human Rights. According to Article 23 of the Declaration, “Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment” (United Nations, 1948).

Despite this declaration, many developing countries continue to have high levels of unemployment. India has been on a high growth rate path since the beginning of the 1990s, guided by its New Economic Policy (NEP) of Liberalization, Privatization and Globalization. The sectoral and aggregate growth rates for India since 2001 can be seen in Table 1 below.

Table 1: GDP and sectoral growth rates (percent)

Year	Agriculture, Forestry & fishing, mining and quarrying	Manufacturing, Construction, Electricity, gas and water supply	Trade, hotels, transport and communication	FIR E	Public administration	GDP
2001-02	5.9	2.8	9.2	7.3	4.1	5.8
2002-03	-5.9	6.9	9.4	8.0	3.9	3.8
2003-04	9.3	7.8	12.0	5.6	5.4	8.5
2004-05	0.8	10.5	10.7	8.7	6.8	7.5
2005-06	4.7	10.2	12.1	12.8	7.6	9.5
2006-07	4.3	13.2	11.7	14.5	2.6	9.7
2007-08	4.6	10.1	10.7	13.2	6.7	9.2
2008-09	1.6	4.1	7.6	10.1	13.9	6.7

Source: Economic Survey 2009-10

Despite vigorous growth rates, India's experience has been what many have described as "jobless growth" (Bhaduri, 2005; Papola, 2006; Ghosh, 2002; Nair, 2008).

This has led many economists to propose an employment lead growth strategy as more feasible and desirable. (See Bhaduri, 2005; Ghosh, 2002; Chandrashekhar, 2008; Wray, 2007; Kregel, 2006).

As Bhaduri argues, "Steady and regular employment is the main avenue to economic security and upward mobility" (Bhaduri, 2005). If this is indeed the case, then employment generation programs need to be at the centre of policy and academic discussion rather than viewed simply as a way of alleviating poverty.

Chronic unemployment/underemployment have many implications for the development of a society. Sen points out the various direct and indirect social and economic costs of unemployment. These include declining current output and income, deterioration of skills, rising inequality, loss of freedom and social exclusion, psychological harm, ill health, weakening human relations and family life, gender and racial inequality, negative impacts on social values, and technical and organizational stagnation (Sen, 1997b).

Forstater argues along similar lines, adding that, "The unemployed are faced with financial insecurity, resulting in poverty and indebtedness. Certain kinds of criminal activity are directly related to unemployment. Unemployment also can destabilize business expectations, as fears of low demand cool private investment" (Forstater, 2006).

Given these arguments, it is imperative to understand unemployment in the context of a developing economy. Central to this dissertation will be an analysis of alternative explanations of unemployment and their implications for employment generation programs.

1.1. Purpose of the Study

The ability to earn a decent livelihood for individuals is crucial to an inclusive development path for any country. Employment opportunities with decent wages form an important part of one's income. As mentioned earlier, the right to decent job has been identified as a fundamental right for all by the United Nations. Employment generation schemes have been at the centre of developmental planning for a long time.

It can be seen that employment centred policies can foster growth as well as help alleviate poverty. While employment centred policies are very important for a more inclusive development strategy, it is also important to understand the nature of unemployment in a developing country such as India. One of the main aims of this dissertation is to study unemployment in India. While the process of globalization and liberalization has facilitated capitalist growth in the economy, a significant portion of the society is still characterized by non-capitalist informal economic activity. Hence, it becomes crucial to take into account the working of non-market institutions—on their own and in concert with market institutions—in order to understand the complexity of unemployment in India. This complexity will be understood with the help of Marxian, post-colonial and heterodox theories, which include Keynesian and Kaleckian approaches. This approach will allow us to understand the inefficiency of markets to solve the problems of labor markets and the importance of government intervention in generating employment.

The primary goal of the dissertation is to investigate whether an employment generation policy like the National Rural Employment Guarantee Act (NREGA) can be linked to long-term growth and development. This dissertation will make the argument that unemployment is a complex problem in the context of a developing country like India and

therefore markets cannot be relied upon for a solution to the problem of unemployment and that government intervention is essential. Also, because unemployment is such a complex problem, the impact of a program like NREGA cannot be evaluated by traditional methods and therefore an alternate approach namely the capability approach needs to be utilized for the purpose of impact evaluation.

Due to the concerns of jobless growth and chronic poverty, the Mahatma Gandhi National Rural Employment Guarantee Act came into existence in 2005.

The National Rural Employment Guarantee Act was introduced in 2005 and was started on February 2nd, 2006 in 200 of the 642 districts of India. In the second phase it was expanded to another 130 and as of 2012, the scheme covers 630 districts.

“The Mahatma Gandhi National Rural Employment Guarantee Act aims at enhancing the livelihood security of people in rural areas by guaranteeing hundred days of wage-employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work.” (www.nrega.nic.in)

The main characteristics of the Act are as follows:

- The scheme guarantees up to 100 days of unskilled manual work to one adult from rural household.
- The state governments can fix the minimum wage under the Minimum Wages Act, 1948 for agricultural laborers as the applicable wage.
- Employment has to be given within 15 days of application for work. If not provided with employment, the state government is responsible for unemployment allowance.
- One third of the jobs should be given to women who have applied for jobs under this act.

-A 60-40 wage to material ratio has to be maintained.

The act aims at providing jobs in order to create durable assets for the rural poor. The program focuses on providing jobs in the following areas; water conservation, irrigation canals, drought proofing etc.

The Act itself was introduced due to the growing concerns regarding increasing unemployment and under employment in the rural sectors of the country. For example, unemployment and out of labor force days for rural agricultural workers is 104 days per year. The number of agricultural workers has gone up from 7.08 million in 1981 to 121 million in 2008. There exists chronic poverty in many districts of the country.

The main aspect of this Act is its rights based approach. The main instruments for it to be a right based program are i) documents like job cards that are the workers documents asserting the workers rights, ii) exercise of choice by workers, iii) time limits on the government for fulfilling guarantees; iv) social audits and v) compensation/penalties. (Sharma, 2010). The table below reproduced from a UNDP working paper by Sharma (2010) shows the various levels of government institutions that are involved in providing work to the participants in this program.

Table 2. Organization of NREGA

Level	Institution	Rights	Obligations
Village	Gram Sabha	Decide projects Carry out Social audit	Function actively as Gram Sabha, demand its rights to do so
Village cluster	Gram Panchayat	Consolidate recommendations from Gram Sabha into a village development plan. Receive funds for it.	Receive applications from job cards, verify and issue job cards Receive work applications, allot work within 15 days and pay within 15 days. Convene gram sabha and facilitate social audits.
Block	Program officer's office	Consolidate GP plans into Block Plan Receive funds	Receive work applications and allot work. Dispose grievances in 7 days. Proactive disclosure
District	District Program Coordinator	Consolidate block plans and receive funds	Ensure that guarantee is upheld, proactive disclosure
State	Department of Rural Development	Make schemes under the law Set up state council Monitor and evaluate	Fund 25% of material costs Pay unemployment allowance Impose penalties Make rules for grievance redressal and accounting Proactive disclosure
Center	Ministry of Rural Development	To amend laws Central Council monitor evaluate, review, collect statistics	Fund 100 % of cost of wages, 75 % of material and 100 % of administrative expenses Release central funds on time to implementing agencies Proactive disclosure

Source: Sharma, 2010

Starting from the village level governing institution of Gram Sabha to the Central government agencies, each level of government has a set of certain rights and obligations towards the Act. The ability to enforce their rights gives them access to the various resources necessary to implement the Act and on the other hand the obligations of the various institutions allows for a more transparent and effective implementation of the Act.

Jean Drèze who was instrumental in the conceptualization and the writing of the first draft of the Act believed that this Act would give opportunities to enhance the livelihoods of the rural population. Because access to employment has now become a right under this Act, individuals can also use this as a leverage to get better wages from their private employers. According to Drèze, “ In particular this Act can help to break the ‘dictatorship of the private employer’” (Drèze, 2008). Because, there is wide unemployment in the rural sectors, workers are forced to accept exploitative wages and working conditions. The implementation of the Act can now give the rural poor the ability to organize themselves in order to get better wages from private employers and enhance their well being.

The introduction of this Act gives a new dimension to development programs in India. Since, this Act ensures the right to employment, the hierarchy between the government as the provider and the participants as recipients itself is challenged to quite an extent. The government itself falls under the law and is now accountable for inefficiency in the implementation of the program.

This rights based approach also results in strengthening of grass root level democracy. The rights based framework also allows for decentralization as decentralization allows for a greater accountability from the various government agencies involved.

In order to evaluate the impact of NREGA on development, field surveys have been conducted in two states. The evaluation of the data collected via these surveys will be done using the capability approach.

The motivation is to see if job guarantee in the rural economy has any impact on issues related to freedom, improving the capabilities of the poorest section of the population, etc. The main aim here will be to identify qualitative indicators that might be affected by job creation in the public sector. To a certain extent, doing so will entail reconsidering the very notion of ‘development’ itself. This approach will specifically address issue of gender.

1.2. Methodology

The methodologies used in this dissertation will be primarily interdisciplinary, historical, ethnographic and comparative.

Chapter 2 of this dissertation will focus on the economic policies that have been followed by the government of India, since independence. This chapter will attempt to focus on the impact of the policy stance of the government during the planning period as well as the neo-liberal regime.

Chapter 3 will take a historical approach to understand the nature of labor markets in India. This will be done using post-colonial and Marxian approach. This chapter aims to deconstruct the social, political and economic conditions in India from the colonial period to the current neo liberal regime and the consequent impact on labor. This will allow us to understand the multi dimensional space in which labor offers its labor power for wages in rural India.

In chapter 4 of this dissertation, the role of employment generation in economic growth will be examined using heterodox theories in economics. This will include an

analysis of the Keynesian approach and the Kaleckian approach with regards to the economies of the developing countries and the role of employment generation programs in these countries. The aim of this chapter is to make a case for employment generation program in India and reinforce the role of government in labor markets.

In chapter 5 the basic findings of the survey and the analysis of these surveys using the capability approach will be presented. The survey conducted as part of the dissertation is qualitative in nature. An ethnographic survey technique permitted a unique analysis of the strengths and weaknesses of NREGA. Speaking directly with participants has allowed for a more holistic understanding of the problem at hand. Direct participation by the beneficiaries of the program has allowed for a deeper analysis of the true impact of the act on the development process of the rural sectors in the country. The basic idea behind this chapter is to show that not only are employment generation programs essential to the development of a country like India, but one also needs to pay close attention to the nature of impact evaluation of such programs. This chapter will also attempt to use the impact of a program like NREGA to rethink the development process as a whole in developing countries.

In chapter 6, based upon our studies, we will reinvestigate the role of government in the development process. We will also discuss some of the misdirected criticisms of NREGA and finally make some recommendations to make this program a greater success.

CHAPTER 2

ECONOMIC POLICIES AND IT'S IMPLICATIONS ON LABOR IN INDEPENDENT INDIA

India is one of the fastest growing economies in the world today. Her performance has been ascribed to the success of the neoliberal policies that have been followed since the early 1990s. Prior to the introduction of the neoliberal policies, India followed a five-year planning regime, which was strongly influenced by erstwhile USSR. The planning period in India has had significant impact on the structure of labor markets in India.

The purpose of this chapter is three-fold. This chapter aims to give the readers a glimpse of the planning period of India by describing each of the five-year plans in brief and its implications for employment. In the second section we examine the key features of the neo-liberal reforms that were carried out after the economic crisis of 1991 and in the final section of this chapter we review the various indicators of labor markets in India including unemployment rates, employment elasticity, etc.

The main aim of this chapter is to give the readers an impression about the structure of the Indian economy and the structure of the Indian labor markets, which has been directly influenced by the planning period and the neo-liberal regime.

2.1. The Planning Period: 1950-1990.

The planning period in India was initiated by the first Prime Minister of India in 1950. There were various structural constraints to the process of economic development that were seen by the Indian planners at this time. Sukhamay Chakravarty in his book 'Development Planning: The Indian Experience' points out the constraints to development for the nascent democracy. According to him, the structural constraints to development were deficiency of

material capital, slow rate of capital accumulation, limitations of converting savings into investment. Also, it was expected that rapid industrialization would lead to absorption of surplus labor in agricultural sector.

Chakravarty looks at the five-year plans from a critical point of view and states,

When the planning process was initiated in India, there was legacy of pre-independence debate on India's development problems. This debate centered around the Gandhian approach¹, at one pole and the 'modernizing' approach of Nehru at the other. The Gandhian approach has never been seriously discussed either by mainstream or by its left wing critics...(D)ifferences between the mainstream theorists and their critics have revolved around the role of the market system in bringing about the desired quantum leap in the volume of accumulation and its distribution between sectors. However both have largely accepted a 'commodity-centered' approach and the extremizing action directives that govern the behaviour of economic agents. Thus, in either system more goods are preferred to less and a higher level of capital stock per worker considered unambiguously helpful in improving standard of living (Chakravarty, 1987).

The first three five year plans were important in particular as they were under the Prime ministerhip of Jawarharlal Nehru².

The first five-year plan (1951-1956) paid attention to both Community and Agriculture development and Irrigation and power, which together were allotted almost 45 percent of the total outlay for the first five-year plan.³ The first five year plan recognized the fact that the underdevelopment of the country at the time of independence was reflected in the occupational structure of the country. According to of the first five year plan committee⁴ members, agriculture, which employed 68 percent of the labor force had not been self sufficient in the production of food and raw material. The industrial sector, where the

¹ "Gandhi was an anti-modernist, liked Ruskin, Thoreau and Tolstoy, shunned modern capitalist industries and labor-displacing technology, favored decentralized economically self-sufficient village republics and was a quasi-anarchist in his opposition to the strong state." (Bhattacharya, 2010)

² Jawaharlal Nehru was the first Prime minister of independent India

³ See <http://planningcommission.gov.in/plans/planrel/fiveyr/welcome.html>

productivity of labor has been three times that of agriculture had not been expanding fast enough to absorb the surplus labor in the agricultural sector. These concerns of unemployment and poverty were to be solved by focusing on generating employment in the industrial sector to absorb workers from the agricultural sector. The planning committee members also recognized that in the short run great attention should be paid to creating jobs in the rural sectors via improvements in agriculture, developing cottage and small-scale industry especially during the slack seasons. However, the planners also warned against perpetuating pseudo-employment. According to the first five year plan,

There is, under these conditions, the risk of creating or perpetuating pseudo-employment, which might result in a rise in money incomes without a corresponding increase in the supply of the goods needed for sustaining the newly employed. While planning for fuller employment, it is also necessary to keep in mind the distinction between a pattern of employment which can be sustained after the development process has gone some way and a pattern that has to serve for the transitional stage. Rigidity of the occupational pattern is incompatible with rapid economic development. Steps must, undoubtedly, be taken to ensure the fullest possible utilisation, in furtherance of development programmes, of labour power now running to waste, but the long-run objective must be to encourage rather than discourage the mobility of labour, geographical and occupational (Planning Commission, 1950).

The first five-year plan was relatively successful due to its modest targets. The targeted growth rate of 12 percent was surpassed mainly due to an increase in the production of food grains during the planning period. Over six million acres of land was brought under irrigation during this period, industrial output witnessed a steady growth rate, and investments were made to complete major public works projects during this period.

Some attention was paid to rural employment generation in the first five-year plan. Two important steps were taken in the first five-year plan to encourage small scale and cottage industries. The first was allocation of substantial funds towards the development of small scale industries and second the establishment of All India Board to deal with the

problems of handloom industry, coir industry, small scale industries, handicrafts, etc. According to Sundaram (1961) the volume of employment created in the first three years of the second five year plan was around 117,000.

It was however the second five-year plan (1956-1961), which is also referred to as the Nehru-Mahalanobis model that paid special attention to the process of industrialization. Keeping with the popular approach to development during this time, the Indian government launched the Import Substitution Industrialization (ISI) approach to economic development. According to Chakravarty, “It (the second five-year plan) was primarily a strategy of industrialization which hoped to succeed by forging a strong industrial linkage, both ‘backward’ and ‘forward’” (Chakravarty,1987).

The main objectives of the second five-year plan were a sizable increase in the national income of the country, rapid industrialization with a special focus on heavy and basic industries, large expansion of employment opportunities and reduction of inequalities in income and wealth. According to the planning committee members, employment opportunities could be expanded via rapid industrialization. Some degree of importance was given to the role of investment in generating employment for the unemployed and the under employed of the rural sectors. It was also pointed out that in order to carry out an employment-oriented plan, investment by itself was not sufficient. Special attention was to be given to the sectoral and regional break up of such investment as well. The second five year plan aimed at generating employment opportunities in sectors such as mining, factory establishments, construction and trade and transportation.

The Nehru-Mahalanobis model was also criticized by some economists. (See Vakil and Brahmananda, 1956). According to them, an alternative strategy to development, which

concentrated on employment and expansion of wage goods, should be pursued. According to Tyabji (1984), while the second five-year plan focused on the industrialization of the country, the opposition to Gandhian philosophy was neutralized by setting up Khadi and Village Industries commission. Taking this point further, Bhattacharya explains,

But more importantly, the protection of village and handicrafts was deemed important for providing livelihoods in labor-intensive production and the supply of non-agricultural wage goods, so that the state's investment of productive capital could be concentrated in capital-goods industries. In these maneuvers emerges an enduring contradiction of postcolonial India's experiments with capitalist development—the contradiction between capital accumulation and employment generation, or in other words, the contradiction between capitalist accumulation and surplus population that the particular social context produces. (Bhattacharya, 2010).

Sundaram in his paper titled 'Utilisation of Idle man power in India's economic development' (1961) estimated that rapid industrialization would be unable to provide employment to the growing labor force of the country. Agriculture alone would also not be able to solve the problem of idle manpower. Therefore, the government would need to concentrate on employment opportunities outside of agriculture as well. He also believed that creating employment opportunities in urban cores would lead to the undesirable concentration of slums and would also place high demand on limited infrastructural facilities in the cities. He too suggested that attention should be paid to small-scale industries along with the large scale industries which would lead to greater employment opportunities for the rural labor force.

Sundaram also points out the role of community development program that was initiated in the First five year Plan in encouraging the use of idle manpower in the rural sector. The main aim of this program was to enable village communities to undertake various community projects that would use the labor power of these communities. Traces of the basic

motivation behind NREGA can be seen in the first five-year plan itself. According to Sundaram, two important aims were recognized by the Planning Commission in relation to creating employment in the rural sectors. They were, work should be available to those who are willing to work and the available manpower should be used to the greatest extent to create community assets. Sundaram concludes, “The simplest way in which under-employed, rural labour could be used profitably would be of course in agriculture itself” (Sundaram, 1961). According to him, greater intensification of agricultural operations via better irrigation, linking of village economies, diversification of occupational structure in rural areas would expand employment opportunities for the rural labor.

The third five-year plan (1961-1966) saw high growth rates in heavy industrial sector and iron and steel and chemical sector. However during the third five-year plan, there was a severe shortage of food grains due to two consecutive failed monsoons. The country witnessed two successive monsoon failures in 1965 and 1967, which resulted in a fall of agricultural production by 17 percent. Defense expenditure also increased during this time as a result of the two wars during this period with China and Pakistan. It was during this time that the World Bank and the International Monetary Fund (IMF) used external assistance as an instrument to induce India to adopt a new agricultural strategy and to liberalize its network of industrial and trade controls and to devalue the rupee.

The importance of the Planning Commission declined during this time and a plan holiday was declared between 1966 and 1969. The five-year planning method was replaced by annual plans during this time. The fourth five-year plan was initiated in 1969.

Due to stagnation in the agricultural sector, the fourth five-year plan (1969-1974) paid significant amount of importance to agriculture. The fourth five-year plan was

undertaken under the leadership of D.R. Gadgil⁵. The main thrust of the fourth-five year plan was on agriculture. Various measures were undertaken to revitalize the Indian agricultural sector. There was special emphasis on the use of fertilizers, electricity and diesel oil to increase production of food grains. In addition, attention was also paid to minor irrigation facilities and to a more intensive use of High Yielding Variety seeds. The fourth five-year plan was responsible for some irreversible changes in the structure of Indian agriculture. According to Chakravarty, the introduction of the fourth five-year plan led to some key changes in the agricultural sector. These changes were increased use of purchased input, greater monetization of Indian agriculture, introduction of price support policies and greater use of oil-based fertilizers. These changes resulted in greater agriculture-industry linkages and a greater sensitivity to international fluctuations in world prices of oil.

There were concerns that the increased mechanization of agriculture would lead to displacement of labor. However, A.K Sen claimed that ‘much of the capital was landesque rather than laboresque’⁶. The main beneficiaries of this plan were big farmers who were able to access credit to invest in new technology. The impact of the fourth five-year plan on labor absorption remains indeterminate. For example, Osmani explains that macro-level evidence showed that per-hectare labour use in states like Punjab, Haryana and Uttar Pradesh- the three states where the impact of green revolution⁷ was maximum, had fallen during this time, but labor absorption had actually increased in the same period. This has been attributed to the

⁵D.R. Gadgil, a prominent economist was one of the critics of the Indian planning in the 1950s. (See Chakravarty, 1987)

⁶ See A.K Sen ‘The Choice of agricultural technique in underdeveloped countries’ 1959

⁷ The introduction of high yielding variety seeds and increased use of fertilizers in India during this time was referred to as Green revolution.

increase in the gross cropped area that was direct result of better irrigation facilities at this time.

According to Bhalla, the labor absorptive capacity of Indian agriculture had seen an expansion from the mid-sixties to the mid seventies. This expansion was primarily due to the introduction of High Yielding Variety seeds, extension of irrigation facilities and use of fertilizers. She also points out that employment elasticities for some of the crops like wheat was actually negative during this time. She also observed that labor absorption in some of the best performing states had followed an 'inverted-U' shaped path. According to her, "The initial response to 'Green Revolution' technology was a sustained rise in labour use per hectare. This trend characteristically peaked in the mid-seventies or shortly afterwards, and the subsequent increases in yield were associated with a contraction in man days employment per hectare, in case of most crops" (Bhalla, 1989).

Reviewing the first four five-year plans, Chakravarty says, "I believe that within the kind of political system that India runs, from the point of sustainability the most significant redistributive measures will center around improving the productivity of small and medium farmers, especially those engaged in the production of food grains, along with employment guarantee schemes in the rural areas" (Chakravarty, 1987).

By the end of the fourth five-year Plan while rate of investment slowed down, investment in agriculture continued due to the onset of the green revolution in the fourth five year plan. Due to this increased investment, production of cereals and wheat increased substantially during this period. There were some concerns regarding a bottleneck in demand for food. In order to overcome this bottleneck, it was realized that home markets would have to be expanded. According to Chakravarty, it was at this time that policy makers felt that a

growth strategy concentrating on redistribution was required. This kind of strategy would lead to the removal of the demand bottleneck and would also generate employment opportunities. The formulation of the fifth five-year (1974-1979) plan was based on 'redistribution with growth'. The main aim of the fifth five-year plan was eradication of poverty and elimination of net aid by the end of the five-year period.

The fifth five-year plan also paid attention to the cause of social justice and believed that fuller employment would lead to the achievement of this goal. The planners of the fifth five-year plan were of the opinion that increased agricultural productivity would improve the employment situation in rural India. According to the planners, "Employment programs are not isolated but are organically linked with those of agricultural production. When employment situation in rural areas improves, the drift into towns and cities would also slow down" (Planning Commission, 1974). In order to improve the employment situation in the rural areas, the commission suggested improvement in some key industries like the handloom, handicrafts, carpet weaving, etc. The fifth five-year plan also aimed at creating opportunities for self employment for villagers by offering them financial and other institutional help.

The sixth five-year (1980-1985) plan was formulated in 1980 and it concentrated on various poverty eradication measures. These measures also included rural employment programs of different types. These programs included the Integrated Rural Development Program, which aimed at providing agriculture and non-agriculture employment to poor families. The National Rural Employment Program was also initiated under this plan. This plan aimed at providing wage employment during the slack agricultural season. In the sixth five-year plan employment generation during off season was seen as an essential method to counter poverty of the rural population.

The above discussion on the first six five-year plans gives us some indication of the impact of planning on employment in India. The first three five year plans specifically focused on rapid industrialization as it was industrialization that was considered to be an effective strategy to absorb the surplus population in the rural areas. The philosophy behind the first three-year plans was a result of the predominant paradigm in development economics of that time⁸. The focus on employment during the first three five year plans were via the establishment of cottage industries and other small scale industries, which would offer employment, that were mainly labor intensive industries. Despite the steps taken towards employment generation during this period, it was rapid industrialization, which was considered to be the route to ‘fuller employment’. Part of the reason for such an approach was the obvious supply side rigidities that existed at the time. These supply side rigidities included the supply of capital to expand industries and therefore the focus was on rapid capital accumulation. The fourth five-year plan paid much greater attention to increasing agricultural production in response to the severe food shortage in the mid sixties. This resulted in the now famous green revolution, which lead to use of high yielding seeds, mechanization of agriculture, etc. The impact of green revolution on employment in the rural areas is not clear, but what is clear is that the benefits of the green revolution was primarily enjoyed by the rich farmers who were able to access credit to invest in new technology and the politically powerful rural elite who were able to gain various agricultural subsidies to improve their position.

By the end of the fourth five-year plan the planning commission had realized the ‘trickle down’ approach had not benefited the majority of the rural population. Employment

⁸ See Lewis (1954).

was seen as an effective action plan to eradicate poverty and some active steps were taken to make employment generation a key goal in the next two five-year plans. The focus on poverty and employment was also a result of the political upheaval of this time. Various national and international incidents during the early seventies resulted in severe inflation, in particular food inflation. Real wages of workers fell drastically and the economic growth of the economy was unable to provide employment to the growing population of the country. The fifth and the sixth five-year plans were therefore actively engaged in generating employment, which would then counter the growing poverty in the country.

T.S. Papola explains in his article ‘Trends in Employment’,

Unemployment was estimated to be relatively low, as was also the growth rate of labor force, and a targeted economic growth rate of 5 per cent with some emphasis on labor intensive consumer goods sectors, was expected to generate large enough employment over the years to prevent any increase in unemployment. These assumptions and expectations continued from one Five Year Plan to another during the 1950's and 1960's. Meanwhile magnitude and rate of unemployment increased significantly. Economy grew at a rate of around 3.5 as against the planned rate of 5 per cent per annum. Yet, employment grew at a relatively high rate of 2 per cent per annum. However, since labor force growth was much higher at 2.5 per cent as against less than 2 per cent per annum assumed, the result was an increase in unemployment (Papola, 2006).

It was the fifth five-year plan, which sought to emphasize on generating employment via concentrating on sectors, which were labor intensive. Papola further states,

At the same time, a strong opinion was emerging to suggest that growth alone cannot solve the problems of poverty and unemployment, and therefore, a number of special employment and poverty alleviation programs were launched. They were mostly of two kinds: providing financial and other assistance for productive self-employment, and offering supplementary wage employment to the underemployed (Papola, 2006).

By the end of the sixth five-year plan, in 1985, the country had embarked upon a path of partial liberalization. Some of the key steps taken during this period were industrial deregulation, which required some dilution regarding licensing requirements entry and

expansion in certain industries; import deregulation, export incentives, etc. By the end early 1990s, a series of events lead to an economic crisis. The partial deregulation in the mid 80s lead to a robust growth in the manufacturing sector, but the fiscal condition of the economy had suffered some major setbacks during this period. Fiscal and current deficits were high. In 1989, the political condition of the central government was also a lot less stable with the ruling congress party losing power and various regional parties coming together to form coalition governments. In addition to this, the country was also experiencing a number of separatist movements in three states, namely, Punjab, Assam and Kashmir.

The macroeconomic condition of the country was further impacted by the Gulf crisis of the 1990. The increase in oil prices along with a decline in nonresident deposits further worsened the capital account of the country. Foreign exchange reserves fell drastically between July and October of 1990. India's credit rating was downgraded by the Moody bond rating agency. An agreement was reached with the IMF for a loan of \$1.8 billion. The instability of the central government resulted in lower investor confidence as well (Joshi and Little, 1994).

A new minority government came into power in the beginning of July 1991. According to Joshi and Little, the highlights of the macroeconomic condition at this stage were,

Inflation was at 13 percent a year and rising. Food prices were rising even faster in spite of the three successive good harvests. The current account deficit was about \$10 billion (3.5 percent of the GDP, 44 percent of exports). Reserves equaled only two weeks of imports in spite of the IMF loan. The recent import curbs were hurting industrial production and exports. Industrial growth had been surprisingly rapid in 1990/91, but there were now evident signs of recession. The central fiscal deficit was 8.4 percent of the GDP (Joshi and Little, 1994).

A program for macroeconomic stabilization and structural adjustment was announced by the new government in response to the economic crisis.

2.2 New Economic Policy of 1991

The crisis in the early 1990 propelled a series of steps by the central government to stabilize the economy and to carry out structural adjustment as a condition to the loan by the IMF. The various steps taken to stabilize the economy included limiting excessive demand on foreign exchange to reduce the balance of payment deficit, devaluation of the rupee and some degree of import compression. The reform measures also included structural adjustment programs, which mainly aimed at reducing the role of state in a bid to decrease the government deficit (Ghosh, 2002). The role of deficits was considered to be a significant one in causing the economic crisis. Changes in the role of state have had some far reaching impact on the various institutions in the country in the last twenty years of the neo-liberal regime. Referring to the neo-liberal reforms, the eight five-year plan (1992-1997) explicitly stated,

The reforms involve a major re-orientation of the role of the State. Instead of being a pervasive controller of private sector activity, and also a direct producer in many areas through majority owned public sector enterprises, the State must play a different role in future. One of the strengths of our economy is that we have a strong and vibrant private sector, including large, middle sized and small enterprises. Our agriculture has always been based on individual farmers with a predominance of small and marginal farmers. Our development strategy must be oriented to enabling our broad based and varied private sector to reach its full potential for raising production, creating jobs and raising income levels in society. A vigorous private sector, operating under the discipline of competition and free markets, will encourage efficient use of scarce resources and ensure rapid growth at least cost. Our policies must therefore create an environment, which encourages this outcome (Planning Commission of India, 1992).

Some of the main features of the reforms will be discussed in this section.

As mentioned earlier, one of the main focuses of the reforms was a decrease in the government deficit. Reducing government expenditure was deemed necessary to meet this requirement. Expenditure was reduced mainly by reducing expenditure on subsidies and administration. According to Ghosh (2002), the reduction in government expenditure was mainly felt by the agricultural sector. Some of the cuts in expenditure that were made were in the subsidies on fertilizers, decrease in public infrastructure that directly affected rural areas and rise in the prices of public distribution system for food.

The new economic reforms also focused on liberalization of the financial sector and external trade. Liberalization of external trade mainly included reduction in import controls, which was a key feature of the planned period of the Indian economy. Reduction in import controls included easing of quantitative restrictions on imports, reducing licensing and other discretionary controls on imports. Quantitative restrictions were also lifted on the imports of a range of agricultural commodities.

The liberalization of the financial sector was another important aspect of the reform period. Liberalization of this sector included raising the credit creating capacity of the banks, increase competition in the banking sector and allowing the banking sector to invest in the stock markets and equity (Ghosh, 2002).

Critics of the planning period were of the opinion that the various reforms undertaken in 1991 would lead to greater efficiency due to the effectiveness of the markets. Private players would be able to use resources more efficiently and a reduced role of the government would ensure that resources are not wasted in ineffective bureaucratic agencies. Supporters of the neo-liberal reforms believed that with greater free trade and foreign investment,

economic activities would be geared towards labor intensive activities and would lead to greater employment generation.

2.3. Indicators of Labor Markets

In this section we will look at various indicators regarding labor in India. Data on employment and unemployment in India is collected by the National Sample Survey Organization (NSSO) every five years starting from the year 1972. The various NSSO rounds are as follows.

1. First quinquennial survey (27th round) - October 72 to September 73.
2. Second quinquennial survey (32nd round)-July 77- June 78
3. Third quinquennial survey (38th round) January –December 1983
4. Fourth quinquennial survey (43rd round) July 87-June 88
5. Fifth quinquennial survey (50th round) July 1993-June 1994
6. Sixth quinquennial survey (55th round) July 1999-June 2000
7. Seventh quinquennial survey (61st round) July 2004-June 2005

NSSO collects employment data by three reference periods a) one year (usual status; US), b) one week (Current weekly status; CWS) and c) every day of the reference week (Current daily status; CDS).

In Table 3, we see the increase in population, workforce and labor force from 1983 to 2000. Labor force includes people who are either working (employed) or ‘seeking or available to work’ (or unemployed). Workforce includes people who are employed in any economic activity during the reference period.

Table 3. Population, Labor force and Work force

				% change	
All - India	1983	1993-94	1999-00	1983-1993	1993-2000
Population	718.2	894.0	1004.0		
Labour Force	261.3	336.0	363.3	28.6	8.1
Workforce	239.6	315.8	336.8	31.8	6.6

Source: Economic surveys various issues

In figure 1, below we see the trends in the growth of population, workforce and labor force during 1983-2000. Both labor force and workforce are increasing almost at the same rate, but labor force is consistently higher than workforce.

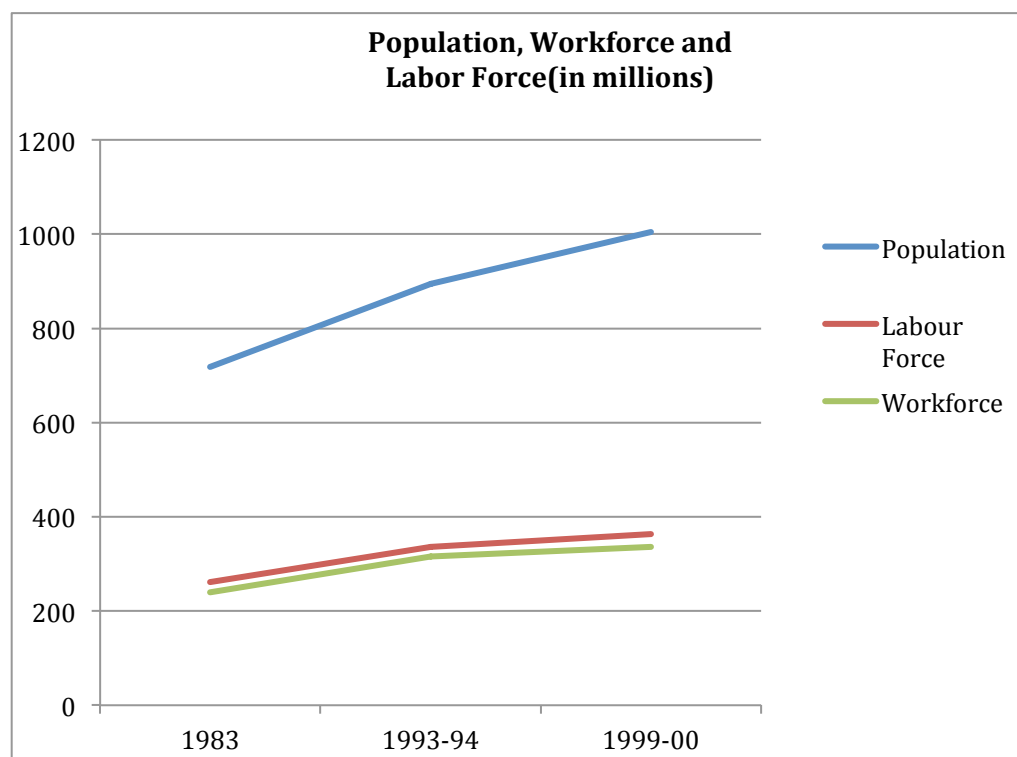


Figure 1: Population, Workforce and Labor Force Growth, based on various issues of Economic Surveys.

In table 4 below, we see employment and unemployment rates since 1983.

Table 4: Employment and Unemployment levels in India (Current Daily Status)
(Million persons)

				% change	
All – India	1983	1993-94	1999-00	1983-1993	1993-2000
Unemployment rate (%)	8.3	6.0	7.3		
No. of unemployed	21.8	20.1	26.6		
Rural	1983	1993-94	1999-00		
Population	546.6	658.8	727.5		
Labour Force	204.2	255.4	270.4	25.1	5.9
Workforce	187.9	241.0	250.9	28.3	4.1
Unemployment rate (%)	8.0	5.6	7.2		
No. of unemployed	16.3	14.3	19.5		
Urban	1983	1993-94	1999-00		
Population	171.6	235.0	276.5		
Labour Force	57.2	80.6	93.0	41.0	15.3
Workforce	51.6	74.8	85.8	44.8	14.7
Unemployment rate (%)	9.6	7.2	7.7		
No. of unemployed	5.5	5.8	7.1		

Source: NSSO various rounds.

In terms of unemployment rate we see that unemployment rates have decreased from 1983 to 2000 from 8.3 percent to 7.3 percent at the all India level. This trend has been maintained for both the rural and urban sector as well during this period. However, if one compares the 2000 figures to that of 1993, we see that unemployment has actually increased since then. Rural unemployment has increased to 7.2 percent in 1999-00 from the 1993-94 levels of 5.6 percent. However, if we compare the 1999-00 levels to the level of unemployment in 1983, the decrease in unemployment has not been significant. Urban unemployment has increased slightly in 1999-00 to 7.7 percent when compared to the 1993-94 level of 7.2 percent.

In Table 5, we see the unemployment rates based on different categories that have been explained above. The trend for unemployment rate based on the current weekly status (CWS) and current daily status (CDS) have increased from 1983 for rural males. On the other hand unemployment rate based on CWS and CDS for rural females have decreased from 1983 to 2004-2005. The trends based on CDS can be seen below in chart 2.

Table 5. Unemployment levels for males and females.

	Male			Female		
Rural	US	CWS	CDS	US	CWS	CDS
2004-2005	2.5	4.4	8.2	2.2	3.4	7.31
1999	2.1	3.9	7.2	1.5	3.7	7
1993	2	3.1	5.6	1.3	2.9	5.6
1987	2.8	4.2	4.6	3.5	4.4	6.7
1983	2.1	3.7	7.5	1.4	4.3	9
Urban						
2004-2005	4.8	5.7	7.9	7.6	7.7	9.9
1999	4.8	5.6	7.3	7.1	7.3	9.4
1993	5.4	5.2	6.7	8.3	7.9	10.4
1987	6.1	6.6	8.8	8.5	9.2	12
1983	5.9	6.7	9.2	6.9	7.5	11

Source: NSSO various rounds.

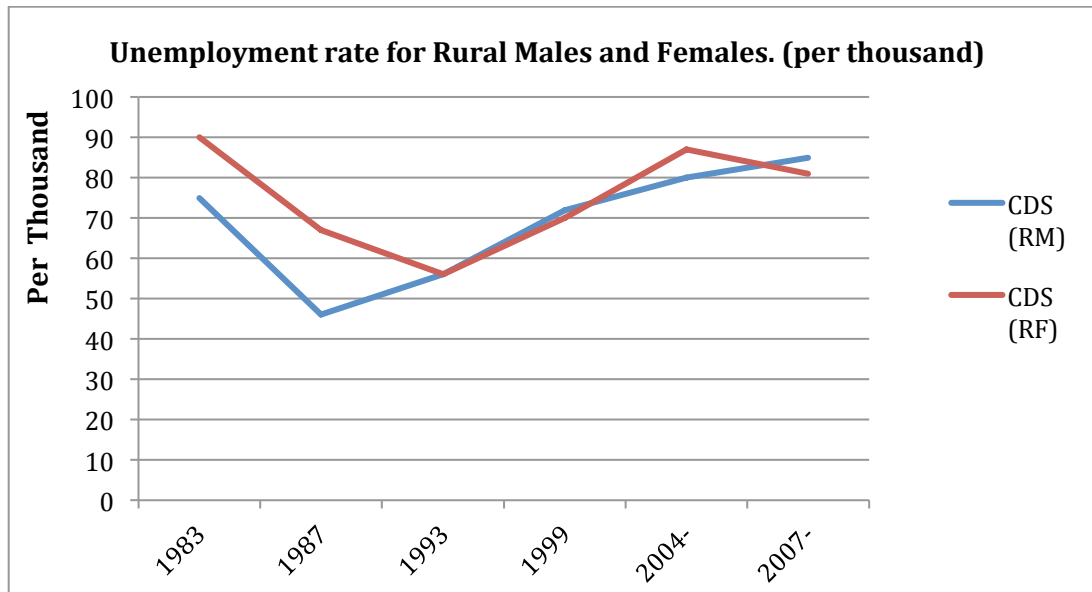


Figure 2. Unemployment rate for rural males (RM) and rural females(RF) (Based on CDS). Calculations based on NSSO rounds

From table 4 and table 5 we see that unemployment rates both in rural and urban areas in 2000 have remained at the same levels that were observed in 1983. It can be therefore concluded that there have been no significant changes in unemployment rates since the economy opened up when compared to before the liberalization of the economy in 1983. This trend clearly indicates that the growth of the economy has not been accompanied by greater employment opportunities.

The composition of labor in different sectors of the economy helps us understand the trends in employment generation as well. In terms of sectoral employment structure, there has been a fall in the share of agriculture over the 1970-2000 period. On the other hand the service sector has seen an increase in the share of employment. However, agriculture continues to employ the majority of India's labor force. This can be seen in table 6 below.

Table 6: Employment shares of major sectors (percent)

	1972-73	1977-78	1983	1987-88	1993-94	1999-2000
Agriculture	74.0	72.3	68.4	65.5	60.38	56.7
Industry	11.4	12.3	13.7	15.5	15.82	17.56
Services	14.6	15.4	17.5	18.4	23.8	25.7

Source: Papola 2006

In Table 7, we can see the sectoral distribution of the workforce from 1983 to 2000. The share of primary sector in the work force has decreased during the period 1983-2000 from 81.5 percent to 75.1 percent in the rural sector. The tertiary sector on the other hand saw an increase in its share of workforce from around 9 percent to 13.3 percent during the same period. Though on the one hand, the decreasing share of agriculture should be considered a welcome trend, but this trend needs to be taken into account in conjunction with a fall in

work force participation rate.

Table 7. Distribution of work force by sector (%)

Sector	1983	1993-94	1999-2000
		Rural	
Primary	81.5	78.2	75.1
Secondary	9	10.2	11.6
Tertiary	9.5	11.5	13.3
Total	100	100	100
		Urban	
Primary	14.8	12.3	7.9
Secondary	33.9	32.2	32.3
Tertiary	51.3	55.5	59.8
Total	100	100	100

Source: Papola, 2006

According to Sundaram and Tendulkar,

International comparisons of long-term changes in employment structure indicate that in the initial stages of economic growth, a decline in share of work force in agriculture and allied activities with lower than average productivity per worker is usually matched by a higher share in services, although the share of industrial sector also registers some increase. The economic growth process involves rising average productivity per worker and is characterized by continuing changes in the employment structure involving movements of workers from activities with lower to higher productivity combined with an uneven pace of sectoral technological changes. The faster the pace of economic growth, the more rapid are the changes in the employment structure (Sundaram & Tendulkar, 2006)

The growth in sectoral employment can be seen in the table below

Table 8: Employment growth (per cent)

	Rural		Urban	
	1983-93	1993-2000	1983-93	1993-2000
Agriculture and allied	1.38	0.18	1.54	-3.4
Mining & Quarrying	3.84	-2.28	4.15	-3.71
Manufacturing	2.14	1.78	2.21	1.83
Electricity, Gas and Water Supply	4.7	-5.65	4.46	-4.19
Construction	5.18	6.43	6.2	6.26
Trade, Hotels and Restaurants	3.72	1.18	3.94	5.54
Transport, Storage & Communication	4.58	7.29	2.9	3.91
Finance, Insurance, Real estate	5.99	2.51	5.63	7.05
Public administration, community and personal services	3.13	0.32	4.16	0.13
Total Non-agriculture	3.23	2.31	3.54	2.96
All sectors	1.75	0.66	3.27	2.27

Note: Growth rates are based on Usual Principle Status (UPS)

Source: NSSO (various rounds)

It can be seen from table 8 above that employment growth has slowed down in almost every sector in the period between 1993-2000 when compared to the period between 1983-93.

Many studies have been carried out on the changes in the employment patterns between sector.⁹

Another important aspect of employment and the extent to which growth can be inclusive depends on the employment elasticity¹⁰ of the various sectors. Osmani explains, “The extent to which an upward shift in of the production possibility frontier enhances the employment potential-the latter being defined as the scope for improving the quality and quantity of employment. In other words, the concern here is with the elasticity of employment potential with respect to growth in production potential” (Osmani, 2006).

⁹ See Bardhan (1977),

¹⁰ Employment elasticity is measured as the ratio of employment growth to the growth of value-added.

Employment elasticities in the various sectors can be seen below in Table 9.

Table 9: Employment elasticity in major sectors.

	1977-78 to 1983	1983-1993	1993-1999
Agriculture	0.45	0.48	0.01
Mining & Quarrying	0.8	0.61	-0.49
Manufacturing	0.67	0.32	0.2
Electricity, Gas and Water Supply	0.73	0.48	-0.52
Construction	1	1.27	1
Trade, Hotels and Restaurants	0.78	0.67	0.38
Transport, Storage & Communication	1	0.55	0.56
Finance, Insurance, Real estate	1	0.49	0.68
Public Administration, community services	0.83	0.63	0.02
All Sectors	0.53	0.36	0.13

Source: NSSO (various rounds)

As can be seen from the table above- employment elasticity in agriculture has decreased from 0.45 in 1977-83 to 0.01 in 1993-1999. Papola explains that the decrease in employment in the agricultural sector has been a result of both decreasing employment elasticity in this sector and low growth rate.

The trend in employment elasticity in different economic activities can be seen below in Figure 3. We can see that employment elasticity for agriculture and mining and quarrying has been negative between 1993-99.

With the exception of Finance, Insurance and Real estate, all the other economic activities have witnessed a decrease in its employment elasticity. This trend once again alludes to the fear of a jobless growth trajectory, which the country is feared to be following.

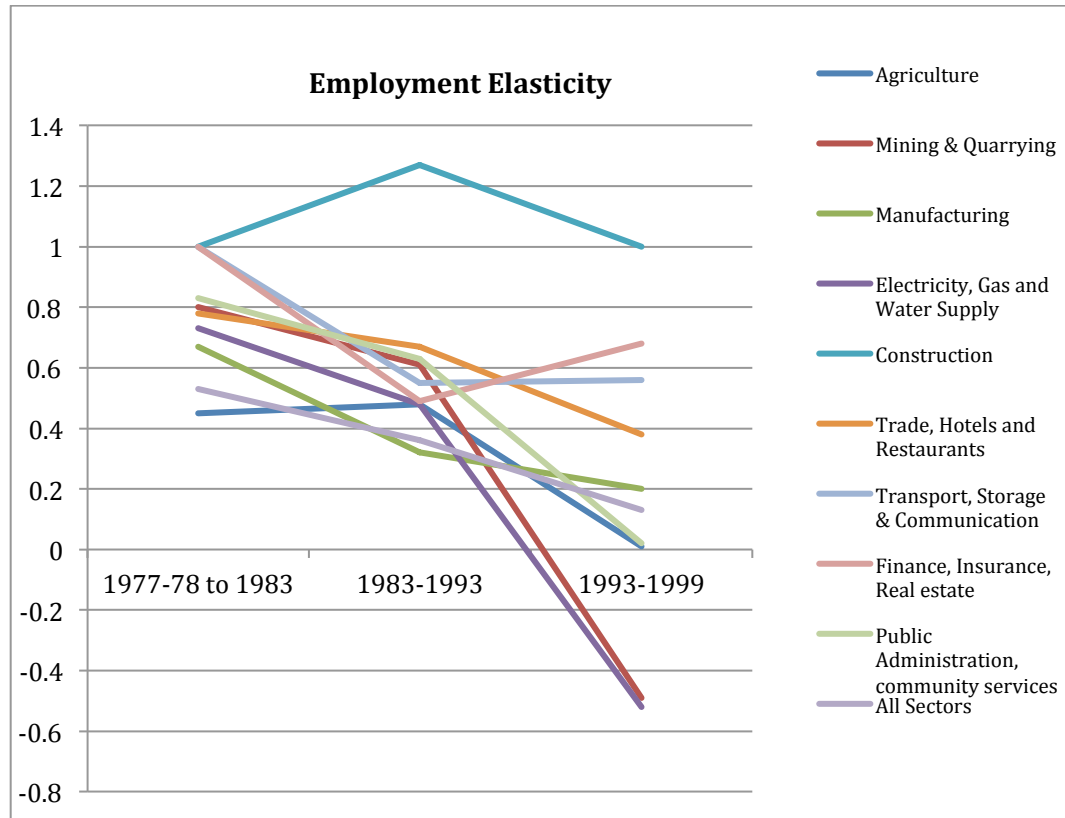


Figure 3: Employment Elasticity. Calculations based on various NSSO rounds.

Apart from the quantity of employment, it is imperative to look into the quality of employment. There has been a growing ‘casualization’ of labor over the last 20 years. According to Papola, “Another aspect of employment trends and structure that is of interest in a developmental context is the distribution of workers by employment category in terms of self-employed, regular wage and salaried workers and casual wage earners. It has been generally expected that with shift of workers from agriculture to non- agricultural activities and from footloose to enterprise based employment, there will be an increase in the proportion of workers employed on a regular wage and salary basis” (Papola, 2006). He shows in his paper that the rate of casualization has increased over the last 20 years. This can be seen in the table 10.

Table 10: Employment Status by category of employment.

Year	Category of Employment		
	Self Employment	Regular Salaried	Casual
1977-78	59.9	13.9	27.2
1983	57.4	13.9	28.7
1987-88	56	14.4	29.6
1993-94	54.8	13.2	32
1999-00	52.9	13.9	33.2

Source: Papola, 2006.

Papola further argues,

This situation has generally been interpreted to mean an increasing 'casualisation' of workforce. In so far as the term describes an increase in the share of casual workers, it is factually true. But if it is meant to imply a process of 'regular' workers turning 'casual', or a decline in employment and earnings, the trend needs to be carefully analyzed. The shift is seen from self-employed to casual workers category and most of it has taken place in rural areas, from agriculture to non- agricultural activities, such as construction, trade and services. There has, no doubt, been displacement of workers from large industries in urban areas, rendering the regular workers to the status of casual workers (Papola, 2006).

We can see in table 9 that growth in employment has been mainly fuelled by the construction sector. Growth in employment in the construction sector has been mainly due to the increase in employment of casual labor in this sector. This trend can also be seen in Table 10. The share of casual workers in the workforce has increased from around 28 percent to 33 percent from 1983 to 2000. It is known that the workers who fall under the category of casual workers usually face low wages, lack of job security and no social security net. On the other hand, we can also see that the share of self employed workers has gone down from almost 60 percent to less than 53 percent. The share of regular salaried workers has remained stagnant during this period.

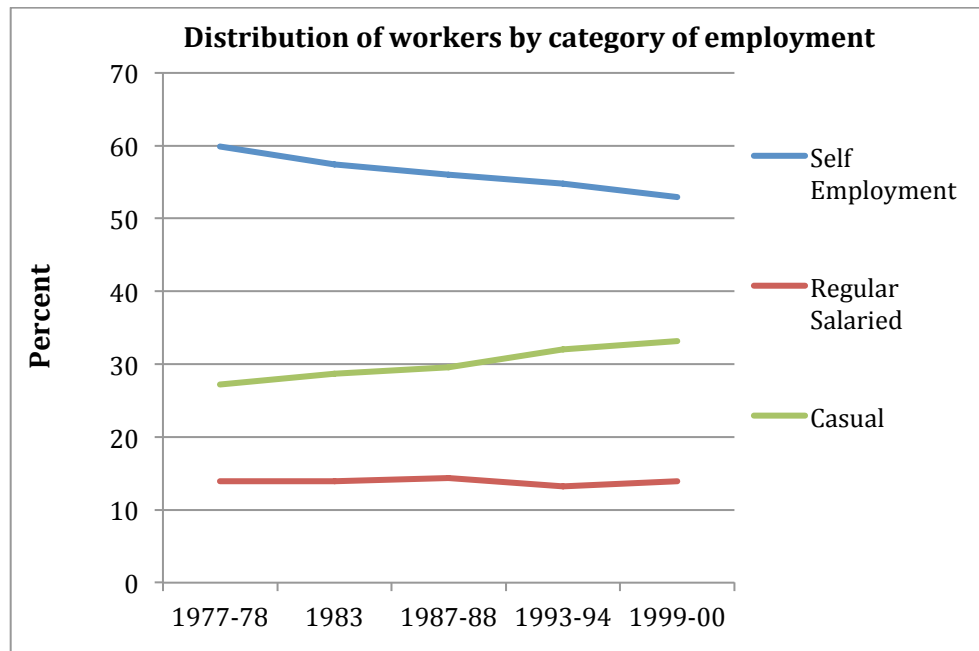


Figure 4: Distribution of Workers (Usual Status) by Category of Employment (per cent)

Another disturbing aspect of the Indian labor market has been a decline in employment in the organized sector. This comes as a surprise since most of the manufacturing and service sector employment falls under organized sector. The service sector has contributed to the high growth rates of the Indian economy since 1991. Organized sector consists of both public and private sector employment. The fall of employment in the organized sector can be attributed to the fall in public sector employment during the post reform period as part of the structural adjustment program.

2.4. Conclusion

Some important conclusions can be drawn from the previous section regarding the conditions of labor market in India before and after the reform period. One of the most important features of the labor market in the post reform period has been the fall in employment growth in most sectors of the economy. With the exception of construction; transport storage and communication and finance, insurance and communication, all other

sectors have witnessed a fall in the growth of employment between 1993-2000 when compared to 1983-93.

Employment elasticity has also decreased in the post reform period in most sectors. Agriculture, which still employs a large section of the labor force has experienced very low employment elasticity. This means that fewer people are being absorbed in the agricultural sector of the country.

The neo-liberal policies have resulted in various spending cuts in the agricultural sector. This has resulted in lower growth in the agricultural sector and consequently a lower labor absorption capacity of the sector. Employment figures are not very encouraging in the urban sector either-the sector, which was expected to benefit the most due to opening up of the economy. Ghosh explains, “ These (neo liberal) policies systematically worked against the interests of most small producers, who accounted for not only the most labour-intensive forms of urban production but also the dominant part of urban manufacturing employment” (Ghosh, 2002). Reducing import tariffs and reduction in priority sector lending has also worsened the situation for small producers.

We can therefore conclude that the optimism regarding employment generation due to the new economic policy has not been met. In fact, the problem of unemployment, under employment and disguised employment has become more acute than before. In a case like this, it becomes imperative that the role of government is increased to generate more fruitful employment.

CHAPTER 3

HISTORICAL PERSPECTIVE ON LABOR IN INDIA

The issues relating to unemployment in India are directly related to the structure of labor markets, the modes of production prevalent in agrarian India and the socio-economic institutions, within which an individual seeks employment. Beginning from the colonial period, labor in India has been continuously subjected to loss of productive assets in particular land, loss of social ties etc. The labor market in India has never been able to consolidate itself into a one big national labor market. This has severely impacted not only the working conditions and wage bargaining ability of labor, but has also created a vicious cycle of poverty and unemployment within which labor finds itself.

The goal of this chapter is to get a better understanding of the various economic and non-economic institutions that affect labor in a number of ways in rural India. In this chapter, a historical approach has been taken in order to understand the current conditions of labor within the context of India's status as a post colonial society. Section 1 in this chapter introduces the readers to the colonial period in India and the impact of the colonial rule on the structure of production and the various methods used by the British government to change the existing system for economic exploitation. In section 2, we examine the colonial mode of production and section 3 explains the impact of the colonial mode of production on labor institutions. In section 4 we examine the various factors influencing the demand and supply of labor in the colonial period. Section 5 of the chapter reviews the mode of production debate in independent India and position of labor in the rural segment of the

country. In section 6, we study labor in the neo-liberal regime and section 7 concludes the chapter.

The aim of this chapter is to introduce the readers to the multi-layered and complex nature of labor markets in a developing country like India. A part of this complexity can be directly related to the aftermath of the colonial rule in the country. In addition, social rules in particular, rules related to caste, economic conditions, class structure, and norms with regards to gender also gives the labor markets in the country a complex, multi-dimensional aspect.

3. 1. The Colonial Period

The colonial period in India has had long lasting effects on many of its traditional institutions. The British colonial period in India effectively began with the defeat of the Nawab of Bengal in 1757 by Robert Clive. From 1757 to 1813, the East India Company had monopoly of trade between Europe and India. In 1813, this monopoly was abolished. The East India Company ruled the country till 1858, after which India was brought under the direct control of the British monarchy. The mutiny of 1857 was the main reason for the transfer of power to the British crown. From 1857 to 1947, India remained under British rule.

The colonial period in India is one of the most important periods in India's modern history. The impact of this period on various institutional setups can very much be seen in modern India. For example the education system, the justice system, the administrative systems are all relics of India's colonial past. Other than these obvious impacts of the colonial period on the institutions of the country, yet another impact of colonial rule was on the structure of production and the consequent impact on the labor markets.

3.1.1. Impact of Colonial Rule on Structure of Production

The impact of colonial rule in India was very typical of the impact in several other colonies. Most of the colonies prior to colonization were centrally ruled agrarian societies. Amiya Bagchi in his book, *'The Political Economy of Underdevelopment'* traces the impact of colonialism on the fundamental structures of production in many developing countries. Bagchi explains that a typical third world country before the process of colonization was primarily agrarian in nature. Bagchi says, "The development of productive forces in such an economy would take the form primarily of acquisition of new skills and the use of new techniques for cultivation of crops or production of goods without any great increase in the use of fixed capital" (Bagchi, 1982). Bagchi also points out that these kinds of economies usually had centralized states. Also, these states were characterized by a strong handicraft industry, which supplied peasants and artisans with basic tools and consumer goods. Additionally, these handicraft industries would also supply the nobility and landlord class with luxury goods. According to Bagchi,

In some cases, such as China, India or Ottoman Empire, there were considerable development of foreign trade and of monetary transaction within the country and with the foreigners. However the basic structure of production would be dictated by internal needs (including needs of the domestic exploiters) of the country or the empire rather than by the dictates of foreign trade or by the requirements of rulers based in a foreign land (Bagchi, 1982).

However, with the advent of colonial powers in such countries, the importance given to foreign trade fundamentally changed the very structure of production.

3.1.2. Taxation as an Instrument of Exploitation

The British in India were typically interested in extracting raw material like cotton, coal, etc to feed the growing needs of industrial revolution in England. In order to do so, they had to change the fundamental structure of agrarian society. They used the existing revenue

system in the country to extract surplus from the countryside. Bagchi explains, “Some orderliness was introduced into the revenue system and the administration by the reforms of the Cornwallis in the 1790s” (Bagchi, 1982). The most important aspect of the British revenue collection system was the alienation of land from the actual producers. Bagchi observes, the common characteristic between the revenue system followed by the British and those prior to the colonial period was “making the land an alienable commodity without creating full private property in it and providing a large surplus in the hands of the British rulers with very little expenditure in recompense” (Bagchi, 1982).

Like in India many colonies faced similar situations in terms of taxation. Colonial powers also introduced their own legal tenders, which included bank notes. This essentially led to the decline of the monetary systems existing in the colonized nations. Taxes and other payments to the colonial powers were expected to be paid using the monetary instruments of the colonial powers. Bagchi states that,

Tax payments or payments to foreigners had to be made in the legal tender or an internationally accepted medium. Ordinary people lost heavily in exchanging the medium of smaller denomination for the medium of higher denomination; when there was a drain of bullion, exchange rate turned increasingly against those using smaller denomination coins (Bagchi, 1982).

While revenue collection was one of first methods used by the British to exploit the Indian countryside, they also carried out many changes in the ‘ownership’ patterns of land. Dasgupta points out this change, “Amongst the most important of them was the institution of private property in land” (Dasgupta, 1981). Alavi explains this phenomenon,

Colonial conquest not only displaced the crumbling power of the Moghul empire and set up the colonial state. It also transformed the structure of power at the local level,

concomitantly with the creation of 'bourgeois landed property', whereby land became the property of the zamindars¹¹, dispossessing the cultivators (Alavi, 1975).

In order to maximize revenue collections, the British abolished the system of forced labor in agriculture. Prior to British advent, land was not owned by the zamindars. However, the zamindars had local power to extract surplus in the form of tribute and revenues from the actual cultivators of the land. The zamindars used coercive forces to collect revenues from the sharecroppers. With the changes brought about by the British, this zamindar class now actually owned the land and the sharecroppers were 'free' to leave his zamindar. But since the cultivator was now dispossessed from his own land, he did not have much choice, but to work for his zamindar. So the political powers of the zamindars were now replaced by the economic powers given to them via property rights. Changes brought about by the British resulted in the loss of traditional right of peasants and other social security nets, which had previously protected peasants from extreme misery at the time of crisis.

3.1.3. Commercialization of Agriculture as an Instrument of Exploitation.

Commercialization of agriculture was yet another instrument that was used by the British to change the structure of agriculture in India. The advent of British rule also destroyed the self-subsistence nature of Indian villages.

India like many of the other colonized countries faced a new monetary system, where sharecroppers found that they were required to pay cash or certain kinds of crops to pay their taxes. Due to a change in the monetary system of the colonized countries, the petty farmers and artisans were now forced to earn 'money'. This led them to grow more cash crops, which was exportable, which could be sold to earn that money.

¹¹ Zamindars were the landlord class in the colonial period in India.

The importance of landlords continued. Farmers who were tenants on their land produced exportable crops. The landlord would keep more than half of the produce. The moneylender in this setup bought the produce from the farmers at very low prices. The moneylenders would then sell the produce to wholesale retailers who in turn would sell the product to merchants from Britain. Bagchi explains that any fluctuations in the demand for these exportable commodities in the world market, which would lead to losses, would be channelled through this long chain of merchants, wholesale traders and moneylenders to the peasants. It was they who faced the brunt of lower demand and lower prices of these products. On the contrary, gains made in the process were kept by the capitalists for themselves and was not allowed to trickle down to the peasants (Bagchi, 1982).

3.2. Colonial Mode of Production

The impact of British rule in India was first seen on revenue collection and the commercialization of agriculture. With the growing influence of colonial power in India, many other changes were observed. Increasing connectivity to the interiors of the country via railways lead to increasing exploitation of natural resources like coal and other minerals. Also, commercial crops like cotton, indigo, tea etc were now more easily transported from the countryside to the ports to be exported.

There have been many debates on the structure of production in India during this time. Some have called this period a feudal mode of production due to the continued influence of the landlords in the agrarian sectors. On the other hand, many have referred to this period as the beginning of the capitalist mode of production in India. Alavi on the other hand claims that this period can be described as the ‘colonial mode of production’. According to Alavi, the social formation in India during colonial period cannot be categorized only as a feudal

system or as a capitalist system. The main characteristics of this mode of production were as follows:

- a) Labor was 'free'. In terms of feudal obligations labor in colonial India was free. However unlike the feudal mode of production, labor faced economic 'coercion' due to being disposed from land. In pre colonial period, cultivators were mainly sharecroppers working for a certain zamindar. It must however be noted that zamindars did not have legal ownership of the land. The zamindars only had the right to collect revenue from the cultivators. To do so, zamindars would often use extra economic compulsion to exploit cultivators. In that sense labor was not 'free' to sell their labor power as they were bound to their own land during the pre-colonial period.
- b) The self sufficiency of local economies was destroyed during the colonial period. Most villages in the pre-colonial times were self sufficient economic entities producing for local economies. During the British rule these small agrarian entities were integrated with the world markets via trade. The main method to do this was forced commercialization of the agriculture. As mentioned in an earlier section, cultivators were now directly exposed to the demand fluctuations of the cash crops they cultivated. In many instances, forced cultivation of crops like indigo and opium for international trade completely ruined the fertility of the land leading to more precarious conditions for the cultivators. In other words the self sufficiency of the agrarian sector was replaced by generalized commodity production.
- c) Yet another characteristic of the colonial mode of production was the replacement of simple reproduction with extended reproduction. Typically, the surplus produced in pre-colonial India was extracted by the zamindars and was

consumed by them. Alavi points out that this surplus was not invested back into the circuit of production in the colony. During the colonial period however, the agrarian society saw a shift towards extended reproduction of capital and a rise in the organic composition of capital. Alavi explains, “The surplus value extracted from the colony went to support capital accumulation at the centre and to raise the organic composition of capital at the center¹², while destituting the colonial economy. The colonial form was a deformed extended reproduction” (Alavi, 1975).

The structure of production in the colonial period was also characterised by a growing dependence on agriculture. Bhattacharya explains, “The pressure of labor force on agriculture lead to a steady decline in land-labor ratio and agriculture became the reservoir of surplus population as poor peasants desperately held on to rapidly fragmenting land as their only means of production in conditions of surplus population” (Bhattacharya, 2010).

One of the main reasons for the growing dependence on agriculture was the conscious deindustrialization of the handcraft industry in India. In India for example, the change in the structure of production lead to a fall in the demand for handicrafts and consequently to underemployment or unemployment of the people who were involved in the handcraft industry. A good example of this phenomenon was observed by Bhattacharya¹³. According to him, luxury consumption by the Mughal¹⁴ imperial court and the maintenance of the army supported a large urban craft industry. With decline in the royal power, such demand for the whole range of urban manufactures declined leading to urban unemployment. Additionally, the process of industrialization of Britain was accompanied by the process of

¹² Alavi refers to the metropolis as the centre- in this case United Kingdom.

¹³ See Bhattacharya, Dhires. 1972. *A Concise History of the Indian Economy*.

¹⁴ Mughal empire ruled large portion of the Indian sub-continent from 1526 to 1858.

deindustrialization in India. This was very evident in the textile industry¹⁵ for example.

3.3. Impact on Labor Institutions.

The changing structure of production in India had many adverse impacts on the working poor of the country. The revenue system and changes in the property rights of land, lead to massive pauperization of the rural poor. In addition to this, the growing dependence on agriculture resulted in a surplus population in the rural area. This segment of the population was then seen as cheap source of labor for the coal mines, tea plantations and jute mills.

3.3.1. Existence of 'Unfree' Labor

Ranjan Dasgupta in his paper titled 'Structure of labor market in colonial India' takes a look at this facet of the labor market during the colonial period. He contends the conventional assumptions about the labor market. The assumptions are as follows a) colonial enterprises employed 'free' labor; b) Models based on the assumption of free market mechanism, which were susceptible to market imperfection and c) existence of 'dual' markets in terms of hiring system and employment¹⁶.

Dasgupta asserts, that

Labor market structures in colonial India was not just marked by 'imperfections'. Also it is not correct to speak of 'dual markets' arising from differences in legal methods of recruitment, administration and disciplining of labor. The basic argument is that the entire labor structure was a rigged one. It was essentially an 'unfree' market structure characterized by fragmentation and varying degrees of open or concealed compulsion (Dasgupta, 1981).¹⁷

¹⁵ See Dasgupta (1981),

¹⁶ According to Dasgupta, the two markets were, "one 'unfree' market and another more or less free market, the 'indentured labor recruitment' being the example of the first one and the 'free' recruitment of unskilled labor being that of the latter (Dasgupta, 1981).

¹⁷ Dasgupta uses three cases to make his argument: the tea industry, the coal mining industry and the jute textile industry.

According to Dasgupta, labor in the colonial period was not 'free'. Instead various forms of coercion were placed upon the working class. Various methods of bondages were used to control workers during these periods. These methods are as follows:

a) Indentured labor: This system was mainly observed in the tea plantations of Assam and Bengal. According to Dasgupta, "Under the system a laborer was bound by a contract to serve for a specific period varying from 3 to 5 years- on the garden to which he was recruited, and if he failed to do so without reasonable cause or 'absconded', he was liable to be arrested by the planters without any warrant and criminally punished" (Dasgupta, 1981). It is also observed that even after the contract between the workers and the plantation owners expired, the workers were not free to leave. This system gave rise to a form of forced labor in the plantation industry in Eastern India.

b) Debt bondage: Yet another way of control was using debts. In many sectors like the tea plantation and the coal mines, local recruiters were used by the planters and the coal mine owners to 'recruit' workers from the countryside. One of the most common ways to hire workers was to give them loans to repay their debts. This was then used as a tactic to hire these workers for the coal- mines. Dasgupta explains,

In fact, because of extreme poverty and meager wages earned by the miners they were practically never able to become debt free. But in accordance with the prevailing Indian traditions the indebted miners remained under a moral obligation to work under the creditor at least until such time as the debt had been fully paid off (Dasgupta, 1981).

c) Zamindari and the Sardari systems: Under this system, often times the coal mine owners and plantation owners struck a deal with the zamindars around their establishments or they themselves acquired zamindari rights around the region. They

would then offer workers the land for free or at very low rents to cultivate on the condition that the workers would be required to work for them for a certain number of days. It was also observed that these workers were not allowed to work for any other coal mine or employer. This was often ensured by force by the coal mine owners.

Yet another way of recruitment was the sardari system. Local village heads and henchmen were used by the jute mill and the coal mine owners to scour the country side for workers. These workers were recruited using force or by using social and kinship ties. In both the cases, the worker was not free to leave their employers and work for someone else.

It can thus be argued that during the British rule in India on the one hand formal slavery and forms of bonded labor was abolished by introducing private property rights. On the other hand however, the traditional rights of cultivators were taken away from them making them, vulnerable to different kinds of systems, which promoted some or other forms of 'unfree' labor.

3.4. Demand and Supply of Labor and Fragmented Labor Markets.

During this period the demand and the supply of labor was greatly influenced by the structure of production existing in the agrarian sectors.

There were various factors that determined the character of labor in colonial India, i.e. 'how and why was it possible to keep labor under bondage, how it led to the emergence of labor system based on some form of compulsion etc..' Dasgupta explains that there were many supply side reasons for this. Stagnant agriculture, primitive techniques, high rate of exploitation of the peasants through high taxation and usury, erosion of non-agricultural sources of livelihood due to the process of deindustrialization, adverse ecological changes-all

this lead to essentially a labor surplus agrarian economy. On the demand side there were several important components as well. The demand for labor was great due to the emerging demand for labor at tea plantation, coal mining, jute factories etc. However, Dasgupta further points out,

The demand generated by such a course of industrial change for wage-labor was not enough to offset the impact of decline of traditional industries as well as intensifying crisis of agriculture. In other words, the specific structural constraints on industry and aggregate size of capital together with the essentially enclaved development of capitalism reinforced the situation of excess supply of labor (Dasgupta, 1981).

Also, Dasgupta observes that the demand for labor was monopsonistic, where as wage-labor remained unorganized for a long time, weakening their bargaining power.

Yet another feature of labor in colonial India was the migration system. During the colonial period, employers often found it easier to transport large number of workers from one region of the country to another to work. There were a few advantages of this system. One of the main advantages was that workers now lived away from their familiar setting. This made it difficult for them to indulge in direct confrontation with the employers. Also they were at the complete mercy of the employers for their living quarters, food and clothing. Typically, the migrant workers would also be from the same ethnic backgrounds. This would lead to less or no interactions with workers from other coal mines or jute mills, thus ensuring that they did not have any knowledge of wages and working conditions in other establishments. Bhattacharya explains, migration also occurred due to differences in productivity of land, intensity of cropping and weather patterns. Village surveys showed that despite migration, wages did not equalize. According to Bhattacharya, “This variation was in fact a structural feature of the labor market that was becoming integrated at one level and fragmented at another.” (Bhattacharya, 2010)

The main impact of these institutions was the rise of fragmented labor markets in the country. On the supply side, the labor markets remained fragmented due to the weak bargaining power of the workers. The institutional framework within which the workers were hired encouraged a multiplicity of labor markets to ensure a subservient labor force. According to Dasgupta,

Some of the important variables in terms of which the labor market maybe divided and classified are a) occupation, b) geographical location, c) linguistic cultural, caste/sub caste and religious community division, d) differences in wage rates, mode of remuneration and periodicity of wage payment, e) methods of recruitment, f) system of organization of work and disciplining of the labour forces, g) institutional forces in the labor markets (Dasgupta, 1981).

Dasgupta further explains, “Slow, typically enclaved and backward nature of capitalist penetration as well as capitalist objective of ensuring a supply of cheap and docile labor force gave rise to and helped the perpetuation of a captive labor market structure. The captive nature of the market structure when labor was abundant and cheap in its turn, acted as a constraint on the cumulative expansion of capitalist enterprise and technological advance” (Dasgupta, 1981).

It can be seen that the unfree nature of labor in India during the colonial period prohibited a rise of a national labor market in the country.

3.5. Mode of production debate in Independent India.

After gaining her independence in 1947, India embarked upon a socialist style planning system. India’s independent movement was greatly influenced by the views of Gandhi. After independence, however, Gandhi’s views were steadily replaced by a more modernist approach to economic development. Gandhi believed that the self sufficient village unit and decentralized democracy were the instruments to development in a post independent

India. However, after independence, modernists like Jawaharlal Nehru and B.R. Ambedkar strongly recommended an economic system based on industrialization and modernization of the country. Bhattacharya and Basole explain,

The local self sufficient economy was negated by the national centralized planning exercise in which resource allocation and distribution on a national scaled was done by fiat. Local self-sufficiency was systematically destroyed to make way for national markets and national flow of resources, labor and money. The nation, and not the village was the unit of Soviet style planning models adopted by independent India under Nehru (Bhattacharya and Basole, 2010).

In the midst of five year planning regime in India, efforts were also made to undo the zamindaari system, which came into being during the colonial period. These efforts included abolition of intermediaries i.e. the zamindaars, security of tenants and reduction in rents, ceilings on the size of landholdings and cooperativization of agriculture. However, most of these efforts were largely unsuccessful. Only the abolition of the zamindaari system was relatively successful. The structures of productions in rural India witnessed some changes during this period.

It was during this time, the debate on the mode of production took place in India. This debate was mainly regarding the mode of production in agrarian sector of the country. This debate was linked to the agricultural labor, especially around the question of hired labor.

The debate was centered around the transformation of the Indian economy from a pre- capitalist society to a capitalist society. For some the increased use of hired labor was a direct indication of an expansion of commodity economy in a post independent India. However, for others the relationship between hired labor and their employers was much more complicated.

In a series of essays written by Utsa Patnaik, she argued, “Hired labor was a necessary but not a sufficient condition for the operation of capitalism” (Patnaik, 1971,1972). She further argued, during colonialism, surplus was not reinvested into the sphere of production, which lead to lack of technological advancement in the agricultural sector and consequently a stagnant agriculture.

Bhaduri was one of the key proponents of the semi feudal school of thought. According to Bhaduri, capitalism is the highest stage of commodity production, where labor itself becomes a commodity. According to Bhaduri, capitalism requires free wage labor. However, in India this is not the case. It was pointed out by the proponents of semi feudalism that the unequal exchange relationships around institutions of usury and trading, sharecropping and other pre capitalist community relations continue to mediate and determine the ability of laborers to freely sell their labor power and buy commodities. Therefore the main features of semi feudalism in Indian agriculture are a) share cropping, b) perpetual backwardness of the small tenets; c) prevalence of modes of exploitation via usury and land ownership and d) inability of the small peasants to enter markets as and when desired.

According to Bhaduri, the main feature of semi feudal relationships is the exploitation of the tenets through usury and landlord's rational property rights. It is however debt bondage, which is critical for the semi feudal argument. According to Bhaduri, landlords are able to exploit tenants via usury. Bhaduri further explains,

The moneylender-cum-merchant class charges high rates of interest on consumption and other loans. Moreover, the moneylender fixes the time of repayment of debt at the beginning of the next harvest. The loans or debts could be of two types. The loan could be repaid by paying off in cash, by selling the grain in the beginning of the harvest season to the moneylender by working for the landlord (Bhaduri, 1973).

Bhaduri also observes that this exploitative relationship between the landlords and the tenants also leads to stagnation of agriculture as landlords have no incentive to invest in technology ¹⁸. Bhaduri's understanding of class is also based on his understanding of mode of production. Bhaduri reduces the definition of class to the ownership of the means of production. Those who own the means of production have more power over those who don't. According to him, capitalist exploitation occurs because of unequal exchange of labor power. According to him, “...since the capitalist labor market does not exist- that is, the labor cannot be exchanged freely-capitalist exploitation in the Marxian sense is not applicable to backward economy” (Bhaduri, 1973)

Bhaduri's concept of class gives rise to: agricultural capitalists, the money lending and the merchant class, small peasantry and agricultural laborers. According to him, agricultural capitalists and the moneylenders are the ruling classes and the exploited classes are those of the agricultural laborers and small peasantry. The capitalist agricultural investment is considered to be productive whereas the investment made by the money lending class is considered to be unproductive.

He further explains that there can be three different kinds of relationships between the two ruling classes; a) the relationship between productive and unproductive investment is that of strict complementarity; b) the relationship between productive and unproductive investment is that of strict competitiveness and c) the relation between productive and unproductive investment is part complimentary and part competitive (Chakrabarti and Cullenberg, 2003).

¹⁸ See Bhaduri (1999).

The Semi-feudal school of thought was criticized by the capitalist school of thought, which was headed by Pranab Bardhan and Ashok Rudra. According to them sharecropping (which was one of the key characteristics of the semi-feudal school of thought) is not a result of semi-feudal relationships, but is actually just a strategic decision between the employer and the employee. They point out that the in the case of sharecropping decisions in the labor market are linked to the decisions in the credit market.¹⁹

Chakrabarti and Cullenberg summarize the arguments made by this school of thought as follows,

Bardhan and Rudra in a series of empirical papers found that though a high proportion of landlords were also moneylenders, money lending was not the chief profession of the landlords. The landlords were actively involved in tenancy farming and often shared with the tenants the cost of production. They also found that often the landlords would give consumption loans to the tenants or the permanent workers at very low rates of interests, sometimes even zero rate of interest. Hence, usury is not the dominant mode of exploitation in rural India (Chakrabarti and Cullenberg, 2003).

According to the capitalist school of thought, since usury was not a dominant form of exploitation in India, all the economic relations formed both in the credit markets and the labor markets were a result of decisions made by rational agents trying to maximize their own preference.

The understanding of exploitation and ‘free’ labor in the Marxian sense is crucial to understanding the nature of unemployment in the rural India. So while a tenant may be ‘employed’ by a landlord, there might be other forms of exploitation like usury, which does not allow the worker to get out of poverty.

The notion of surplus labor also finds a dominant place in Marxian debate. The idea of surplus labor being different from the idea of reserve army of labor has been discussed by

¹⁹ See Bardhan (1980, 1984a, 1989), Rudra and Bardhan (1978, 1980, 1981)

many²⁰. Sanyal discusses this in the context of India. He argues, “ In the Indian context, that surplus population should be emphatically distinguished from the reserve army of labor. The latter is internal to accumulating capital, while the former constitutes the outside of accumulating capital” (Sanyal, 2007).

Bhattacharya explains Sanyal’s position in the following manner,

The surplus population belongs to the “need-economy” in Sanyal’s analysis and they are the victims of primitive accumulation and exclusion by the “accumulation-economy”. Sanyal’s “need-economy” consists of both ancient and small non-accumulating capitalist enterprises. The “need-economy” is redundant as far as the economic conditions of the “accumulation-economy” are concerned, though it is crucial—in its role as a space for rehabilitation of the surplus population—for political and cultural conditions of existence of the “accumulation economy” (Bhattacharya, 2010).

While the mode of production debate did shed a light on the existing economic system in a post-independent India, some claimed that after a point of time, the debate simply became a ‘semantic exercise in labelling’. (Bhattacharya, 2001) Commenting on the mode of production debate Bhattacharya explains, “The project of classification often obscures and homogenizes, flattens and essentializes.....What such exercises often lack are historical explanations into the process of their production and reproduction, legitimation and de-legitimation” (Bhattacharya, 2001)

At this time, other scholars took an anthropological route into understanding labor forms in agrarian India. Studies conducted by Jan Bremen in south Gujarat and Gyan Prakash in South Bihar attempted to explore the cultural and social mores that surrounded the employer-employee relations. Bhattacharya points out, “Historians now began looking at the cultural categories through which social relations were ordered, the perceptual frames

²⁰ See Nun (2000), Kay (1989), Quijano and Westwell (1983)

through which the labourers and employers looked at each other, and the duties and obligations that tied them together” (Bhattacharya, 2004)

In addition to studies done on rural labor, studies were also undertaken to understand the changing face of urban labor in India. From a Marxist point of view, many scholars claimed that labor in urban India has not developed a universal class consciousness. Mohapatra explains, “The continued rural linkage of the worker, the coexistence of multiple modes of production within the same social formation, the segmentation of the labor market etc, supposedly accounted for the persistence of pre-modern mentalities and hampered the emergence of proper proletarian culture” (Mohapatra 1999).

The debate on mode of production was particularly useful in trying to categorize forms of labor in a post-independent India. While the debate focussed mainly on whether or not India’s economy was a pre-capitalist, semi-feudal or fully developed capitalist one, the debate also brought to focus the multi-layered relationship between employer and hired labor in rural and urban India.

The various studies conducted during the 1970s indicated the wage workers did increase during this time. This did not however mean a systematic expansion of the capitalist mode of production. The most important outcome of these studies was the intricacy and the complexity of the Indian labor. The working class in India did not identify itself as a singular class. They identified themselves more on the basis of kinships, tenancy, caste and region. This also helps us understand the inherent problems associated with unemployment and employment in the agrarian society.

3.6. Labor in the Neo-Liberal regime.

After more than 40 years of planned economy, India opened up its economy to the world markets in 1991. Liberalization in India was a response to the payment crisis, which was faced by the central government in 1991. The main reason for the payment crisis was the sharp increase in oil prices, which lead to a trade deficit. Additionally, there was Balance of Payment crisis due to a loss in confidence in the central government. The payment crisis in India was followed by policy responses that were suggested by the IMF. Liberalization of the economy was also followed by a period of structural adjustment and privatization.

3.6.1. The Neo Liberal Regime

As mentioned above in this section, the neo liberal regime in India was mainly characterized by the opening up of the economy in 1991. With the advent of the neoliberal policies in the early 90s, the growth rate of GDP hovered between 5.5 to 6.5 percent. The growth rate for India's GDP can be seen below in Table 12.

Table 11: Average annual rates of growth of GDP (at factor cost) in constant prices.

	Base year 1993-94	Base year 1980-81
1980-81 to 1984-85	5.5	5.3
1985-86 to 1989-90	5.8	7.0
1990-91 to 1995-96	5.6	4.2
1996-97 to 2000-01	6.2	NA

Source: CSO, National account statistics, various issues.

The neo-liberal regime has had some lasting impact on various sectors of the country. While service sectors have continued to grow due to growing investment in the Information and Technology sector and other service sectors, industrial and especially agricultural sector have not witnessed the same degree of growth.

Some of the main characteristics of the neo liberal regime are as follows:

a) Stagnation in agriculture: In general a growth in the urban core of an economy is followed by an increased demand for food. But in the past few years agriculture has been stagnant with a very low average growth rate of 2 percent. Traditionally agriculture has been an extremely unstable sector with wide fluctuations due to weather conditions. In addition it has also been a low productivity sector. The fiscal constraints that were imposed on the government of India after the introduction of the neo liberal policies in India ensured that public expenditure in agriculture was reduced. Reduction of subsidies on fertilizers, lack of access to credit etc. have been partially responsible for the stagnating agricultural sector. In addition to stagnation in the agricultural sector, there has once again been a shift to the production of cash crops for the purposes of export. This has once again exposed cultivators to the fluctuations of the world markets. To remain competitive in the world markets, farmers are attracted by high yield seeds, which are marketed by multinational companies. The sale of genetically modified seeds by such companies often increase the input costs for these poor farmers as these seeds need to be bought every agricultural season. Lack of access to credit has also lead to an increasing influence of money lenders in the credit markets in the rural sectors. This situation very closely resembles the agricultural sector in the colonial period. During the colonial period it was the active intervention of the colonial government, which lead to deteriorating conditions in the agrarian sectors, while it is the inactivity of state in the neo liberal regime that is contributing to the stagnating conditions of the agricultural sector in India.

b) Public sector: Due to the structural adjustment program in this period, there has been increasing privatization of the public sector. Bhattacharya explains, “ The process of privatization and disinvestment in the public sector, closure of loss-making public sector units, and the corporate and industrial restructuring in the private sector for higher efficiency and productivity have led to downsizing and retrenchments and increased job losses in the formal sector” (Bhattacharya, 2010).

The organized sector in India is composed of employees from the private and the public sector. According to an estimate provided by the Director General of Employment and Training (DGET), public sector employment in manufactured sector in organized sector increased significantly between 1961 and 1993-94, but witnessed a decline from 1993-94 to 2000.

This once again closely resembles the fall of the Moghul empire and loss of jobs of artisans who were supported by the empire. During the pre colonial period and the planning period of the country, state expenditure had actively supported a considerable segment of the working population. This has ceased to exist both in the colonial period as well as in the neo liberal regime in the country.

c) Dispossession of land: During the period of liberalization, there has once again been a move to acquire land from the rural poor. This is done mainly by the various state governments. According to Bhattacharya,

In the recent years, there has been a drive made by several state governments for acquisition of agricultural lands, mostly from small peasants, to be handed over to private corporations for setting up large-scale industries, infrastructural projects, for developing Special Economic Zones (SEZs) and/or for high end real estate developments...(T)he farmers are often compensated for giving up their land, at fixed rates by the government, but under current legal provisions,

they do not have the right to refuse to part with their lands as such acquisitions are attributed to ‘public purposes (Bhattacharya, 2010).

Land acquisition has become very important for state governments since liberalization. One of the key reasons for this is the setting up of Special Economic Zones (SEZ’s) to attract both domestic and international investment into their states. The idea behind SEZs is to have special zones, where industries can be developed. These zones get special tax exemptions, access to subsidized water and electricity supply. Another key aspect of such zones are the assurances that the right of labor to unionize will be disallowed.

Citing the recent example of the Tata group’s attempt to obtain agricultural land in West Bengal, Basu explains, “What was the correct quantum of compensation (for the farmers)? They led a life that quite satisfied their material and cultural demands. For this they were totally dependent on their plots of land. It was as much a part of their culture and life as it was means of livelihood”. (Basu, 2007)

This process of dispossession of land once again reminds us of changing property rights during the colonial period. During the colonial period the zamindar class was granted property rights, where as in the neo liberal regime, the property rights are being ‘sold’ to private corporations for profit making purposes.

3.6.2. Impact on Labor Institutions.

The impact of the neo liberal regime on labor is most pronounced in the form of growth in the informal sector employment. With stagnating agricultural sector, large-scale dispossession of land, etc., more and more rural workers find themselves working in the

informal or the unorganized sector. Some of the important impacts of the neoliberal regime on labor in India has been discussed below.

Increased Casualization of workers: There has been an increasing casualization of workers in the last two decades. This trend can be seen in the table 11 in chapter 2. It is known that the workers who fall under the category of casual workers usually face low wages, lack of job security and no social security net. A report by Tata Institute of Social Science in 2008 titled, ‘India Labor Market Report’, states, “...the overwhelming proportion of workers in the informal sector in India have employment of casual nature, or some kind of self employment with a very weak access to social security”(TISS labor report, 2008). The report further adds, “...this workforce has low human capital in terms of education, a majority of its works under poor working conditions, the workers have poor access to own assets like land the most vulnerable group belongs to this sector.

As mentioned in chapter 2, there has been an increasing trend in informal forms of employment since liberalization. The growing informal sector in the economy leads to a greater pauperization of the working poor. Barbara Harris White in her book titled, “India working- Essays on society and economy” explains,

The large-size, relatively high growth and labour absorptive capacity of the unorganized economy are distinctive features of Indian capitalism. How these workers are disciplined is a key part of the social structure of accumulation in India. Another feature is the unskilled nature of much of this work, reinforced by the use of casual labor and flexible employment practices, so that little importance is attached to training and development of skills (Harris-White, 2003).

In addition to this Harris-White points out that small capitalists are able to take advantage of the informal and casual nature of work as well. According to her,

Individual small capitalists can set terms and conditions of their labour contracts. Even when casual wages are ‘agreed’ across a sector within a town, the implicit

terms of casual labour can be altered individually. The breakdown between the cash and kind components of the labour varies from firm to firm. Such practices prevent easy comparisons-either by labour itself or scholars of labour (Harris-White, 2003).

This kind of system also gives rise to fragmented labor markets, which in turn makes any kind of collective bargaining impossible for the workers. The excess supply of labor also results in less bargaining power for the workers.

The miserable conditions of rural workers have also increased the incidence of debt bondage in some areas of the country. Jan Breman in his study on Gujarat explains, “neo-bondage is less personalised, more contractual and monetised, while also the elements of patronage have gone, which provided some protection and a subsistence guarantee, however meagrely defined, to bonded clients in the past” (Breman, 1996).

The informal nature of the labor markets have also lead to smaller fragmented labor markets over the country.

Caste and employment: Caste system is not new in India and it has been the root for various social evils for centuries. However, the liberalization of the economy has impacted the employment opportunities of the lower caste sections of the population more adversely than others. With lower public expenditure and reduction in public employment, affirmative action, such as job reservation policies have also increased ‘caste based’ inequalities (TISS Labour report, 2008). According to the report, employment status of the Scheduled caste and Scheduled Tribe (SC/(ST))²¹ has been particularly discouraging. Members of the SC/ST community are mainly self-employed farmers or casual laborers. They also continue to be involved in manual jobs such as cleaning and sweeping.

²¹ Scheduled castes and Scheduled tribes in India are historically disadvantaged groups. Since independence the constitution of India has recognized these groups and has made provisions, including affirmative action, for their development and progress.

According to Ghosh, while these social categories based on caste are not new, but these are the practices upon which the process of economic accumulation continues to base itself. Ghosh explains, “Capitalism in India, especially in its most recent globally integrated variant, has used past and current modes of social discrimination and exclusion to its own benefit, to facilitate the extraction of surplus and ensure greater flexibility and bargaining to employers when dealing with workers” (Ghosh, 2011c). Members of these castes also continue to make lower wages and are more susceptible to greater job insecurity.

Women and employment: The impact of the neo liberal policies on women has been significant. Women in India in the post reform period have been increasingly employed in ‘home-based’ subcontracting activities. They are usually paid on piece rate basis. Low wages in this sector has been mainly due to the intense international competition in the manufacturing sector, which compels producers to keep their costs low. According to Ghosh, the basis of exploitation of women in sub contracting industry is that production is maintained via a chain of intermediaries. In such a situation the final user of the outsourced material can deny any knowledge of the working conditions or low wages at the bottom of the production chain (Ghosh, 2002).

A study by Neetha of modern mill industry in Tirupur reveals that since 1985 there was a massive expansion of exports from this region. The industry, which traditionally hired male workers, changed its hiring strategy to hiring mostly women during this period. Women were paid on the basis of piece rate and their daily incomes were just above half the official minimum wage rate in the area. The study also pointed out that while horizontal mobility was possible in this industry, vertical mobility for women was typically close to zero (Neetha, 2001). The precarious conditions under which women work in the outsourcing and sub

contracting sector is a direct result of an attempt to make the labor market more flexible in the face of growing international competition.

In the rural sectors, it has been observed that self employment constitutes a majority of women's work. According to Ghosh, most women who are self employed in the rural sector are driven to such employment due to the unavailability of salaried work (Ghosh, 2011a). Yet another aspect of women's work has been the rise of unpaid labor during the post reform period. Unpaid work usually constitutes family care, collection of water and firewood for fuel, etc. This has been mainly due to the fall in social expenditure that has placed a greater burden on women.

The neo-liberal period is characterized by growing uncertainty for workers, which has given rise to labor institutions, which remind us of labor institutions of the colonial era.

3.7. Conclusion.

When looking at the impact of colonial period on labor institutions, we see that while labor was technically 'free' to work for any employer, in reality it faced a number of constraints, when looking for jobs. Extra-economic forces were often at play in hiring workers in the colonial period.

In the neo liberal regime on the other hand, labor has freedom to move from region to region and seek employment. But the informal and temporary nature of work has resulted in lower wages and weak bargaining power for the working poor. In addition, to this, formal sector employment has also decreased in the last 20 years. The forces of capitalism tends to exploits the most vulnerable sections of the society like the SC/ST communities and women to make the process of capitalist accumulation faster.

The important lesson to take from the analysis so far is that due to the complex nature of labor markets in the country, it is extremely difficult to simply depend on the markets to clear the labor markets and solve the problem of unemployment and poverty. As can be seen from our discussion in this chapter, the problem of unemployment can be seasonal or could be based on caste or gender. On the one hand, most people have found employment in the growing informal sector in the urban and semi-urban areas of the country, it still does not allow labor to assert their rights in terms of wage bargaining, acceptable working conditions, job security etc.. The neo-liberal regime has ushered along with it a stagnating agricultural sector, which still employs the majority of India's work force.

The era of liberalization has brought with it the complete collapse of village life and community life. Larger number of people from rural regions find themselves migrating to bigger cities in search for livelihood. Lack of access to productive assets and cheap credit has resulted in a large number of workers seeking employment in urban cores of the country.

In a scenario such as this, economic growth of a country holds no meaning for majority of the country's working population. As right to livelihood is a basic human right, it becomes more and more important to intervene into the matters of unemployment and under employment via employment guarantee programs. Having said that it also becomes important to understand and know the structure and the conditions of labor in India in order to formulate a policy that will be effective for the larger masses of the country.

Therefore the effectiveness of employment guarantee program will be determined by the various social and economic institutions that exist in a rural economic system.

CHAPTER 4

THE CASE FOR EMPLOYMENT GENERATION IN DEVELOPING COUNTRIES- A HETERODOX VIEW

A recently released report by the United Nations Research Institute for Social Development (UNRISD) titled, 'Combating Poverty and Inequality-Structural change, Social policy and Politics', has once again emphasized on the importance of job creation and poverty reduction in under developed countries. The report has stressed on the fact that persistent poverty in many developing countries can be tackled only by following growth policies that pay attention to productive employment. As stated in the opening line of the report, "A fundamental precondition for poverty reduction is a pattern of growth and structural change that generates productive employment, improves earnings and contributes to the welfare of the population" (UNRISD, 2010).

The problem of unemployment/underemployment is of great significance for developing countries. In the current regime of neo liberal policies, more and more workers in the developing countries find themselves either without adequate work or under work conditions that push them into extreme poverty.

The report reinforces this point, "The free market orientation of development policy is associated with labour market inequalities, persistent informalization and the emergence of precarious forms of employment." It further adds, " At a general level, and taking each country's structure of employment as a starting point, policies must address problems of insufficient labour demand, improve quality of existing employment, and facilitate labour mobility"(UNRISD, 2010).

Employment generation by active government intervention is of course not a new policy prescription. In this chapter we will examine the contributions of two important economists who have discussed the issues of unemployment and the importance of government intervention as a solution. These two economists are Keynes and Kalecki.

One of the key problems faced by the developing nations in the early 1950s was that of chronic poverty and persistent under employment. And Keynes's most notable contribution was to actually prove how an economy could be in equilibrium at less than full employment. John Toye, in his article "Keynes and Development Economics: A sixty year perspective" says, "The implication of his new concept of involuntary unemployment was that resources were being wasted: what men and women did not produce today through enforced idleness would never be produced at all. To eliminate involuntary unemployment by government intervention was therefore to prevent waste of resources and to allow their potential output to be made actual" (Toye, 2006).

Keynes's analysis was based primarily on his understanding of a fully developed capitalist world. As a result of this, many economists from the developing countries were critical of his approach. Kalecki's understanding of an economic system was based on a similar theoretical framework as Keynes, but Kalecki was aware of the crucial difference that existed between the developed and the developing countries' economies. Commenting on these differences, Robinson explains, "Kalecki stresses, far more than Keynes, the political element in all economic developments and he brings to the centre of the argument the classical question, which Keynes was inclined to smooth over, of the division of the produce of earth between the classes" (Robinson, 1976). His focus on the various classes that existed

in developing economies during the post world war II period also gives a more thorough understanding of the nature of unemployment in developing countries.

In the current neoliberal regime, Keynesian emphasis on job creation is much more relevant today than ever before. However, one needs to be cautious when using job creation and increasing effective demand as a source of economic growth. It is true that many developing countries do face the problem of deficiency in effective demand. But what needs to be also taken into consideration is that many of the developing economies do face structural rigidities, which disallows the Keynesian multiplier to take effect. Keynes's focus towards employment generation needs to be combined with Kalecki's understanding of unemployment to achieve the goal of greater development and growth.

In this chapter, we will see in the second section what makes Keynesian economics relevant to developing economies. In the third section, we will critically analyse some ideas associated with Keynesian economics and its applicability to the developing world. This section will include first understanding unemployment in the context of a developing economies and then some more general criticism that have been made about Keynesian economics with regards to its relevance to developing economies. In section 4 we will briefly discuss Kalecki's approach to development and how it differs from the more prominent Keynesian approach. In the final and concluding section, we will examine India as a case study and make a case for employment generation scheme.

4.1. Relevance of Keynesian Economics

Keynesian economics found its zenith in the post world war world. With the Great Depression at its heel, the 1950s saw policies followed by many of the developed countries, which were essentially Keynesian. This was also the period, when many developing

countries gained independence. This was described as a period of great optimism and hope for such countries. With Keynesianism as the dominant paradigm in the western world, it soon became a foundation for policy making in many developing countries. In contrast to the neo classical models, Keynesian economics was perceived to be more applicable to the economies of countries, which had recently gained independence.

Hans Singer in his article 'Relevance of Keynes for Developing Countries says, Albert Hirschman credits Keynes with the major methodological step in establishing the analysis of the problem of developing countries on a firm scientific footing...(T)hat step was in his own terminology, to move away from monoeconomics to the proposition that different laws and rules apply to economies that find themselves in different situations (Singer, 1985).

There are some characteristics in the Keynesian model, which makes it very attractive to developing economies. According to Singer, "By contrast (to the Keynesian model), the preceding classical and neoclassical economists assumed that that the laws and the rules of economics had universal validity comparable to physical laws such as the law of gravity" (Singer, 1985). There are many reasons, which therefore makes Keynesian economics applicable to developing economies.

- i) Unemployed resources: One of the main assumptions of the Keynesian model was that of unemployed resources. This according to Singer, "seems to correspond directly to the existence of surplus labour, unemployment, disguised unemployment, underemployment, low productivity employment, the informal sectors and the like in developing countries." This was particularly true for the developing economies in the 1950s. Most of these economies had a surplus of labor power, which could not be absorbed by the predominant source of

employment at this time, i.e. agriculture. Rapid industrialization was absent in most of these countries, which added to the problems of unemployment.

ii) Effective demand: One of the main drawbacks of mainstream development literature is its continuous neglect of the problem of effective demand. It has been pointed out that most developing economies do not have a highly monetized economy and are mainly barter economies, which is why the problem of effective demand does not exist in these countries. However, Rakshit asserts, “ True, aggregate demand in all markets for goods and services identically equals aggregate supply. But there are non-reproducible assets in a barter economy so that there is nothing to prevent aggregate demand for commodities to fall short of full employment output. ²²” (Rakshit, 1982)

iii) Low level equilibrium: The General Theory also points out to the possibility of an economy settling at a low level equilibrium (less than full employment output.). According to Keynes, in such a situation of low level equilibrium, it becomes difficult to depend on markets to push an economy out of a slump. It is in such situations that an external agency needs to intervene. According to Singer, “This again corresponds to the conditions in developing countries, where market failures, interventionist policies, and government planning rapidly became familiar and almost universally accepted concepts.” (Singer, 1985).

iv) Uncertainty: Another important contribution of Keynes to macroeconomic policy was that of uncertainty in investment. Toyer points out, “While in principle

²² Rakshit includes land and credit as such assets. According to Rakshit, “If the price of land and or/the rate of interest are slow to change, the system may adjust very much in the Keynesian fashion through a decline in the level of production, especially when the cost of holding savings in the form of commodities is very high.” (Rakshit, 1982)

private entrepreneurs could build and finance factories, in practice the uncertainties, shocks and co-ordinated problems that affected private investment decisions meant that government would have to lead in the beginning at least, and the private sector would only be able to follow.” (Toye, 2006). This was directly linked to the lack of industrialization in these countries. Growth of developing countries was also linked to industrialization. According to Burchardt,

For under developed poor countries with a surplus population and a general shortage of social and private capital, different and many formidable problems arise. If a fairly rapid rate of industrialization is desired, a higher degree of direct controls and other methods, not unlike those employed in war economy will probably be needed (Burchardt, 1944).

v) Resource mobilization: Another attractive feature of the Keynesian model is the emphasis it lays on both mobilization and allocation of resources. Singer makes the following point, “The mobilization of resources in the Keynesian model takes place mainly through additional investment, with its associated multiplier and accelerator effects; this is most clearly expressed in Harrod Domar model derived from the Keynesian analysis”. (Singer, 1985).

The conditions existing in the developing countries therefore made for a breeding ground for Keynesian macroeconomic policies.

However, in doing so, Keynesian economics has also come under some scrutiny about its approach to economic growth.

4.2. Keynes Under Scrutiny.

There are several characteristics of the Keynesian model, which makes it an ideal choice for macroeconomic prescriptions in the developing countries. However, one must keep in mind that Keynes’s ‘The General theory on Employment, Interest and Money’ was

written during the Great Depression with the specific conditions of Great Britain as its focus. With regards to this, many of the conditions that exist in the developing countries are drastically different from those found in the industrialized nations.

One of the key concepts of the Keynesian analysis is that of full employment. In the Keynesian world, the idea of full employment plays a fundamental role. For Keynes, as mentioned earlier an economy can be at equilibrium at below full employment level of output. However, in order to apply Keynesian economics to developing world, it becomes very important to understand the nature of employment and unemployment.

Understanding unemployment.

The notion of unemployment itself changes its meaning when we look at the phenomenon in the developing world and therefore economists have said that the notion of unemployment itself needs to be understood in the context of a developing country. (See Robinson 1936, Rao 1952, Dasgupta 1954)

Joan Robinson was one of the first people who pointed out that the Keynesian notion of unemployment or full employment is not directly applicable to the developing economies. Robinson talks about the idea of disguised unemployment in poorer countries in her 1936 article suitably named 'Disguised Unemployment'. She says, " An economy consisting of self-supporting families each working their own land must always enjoy full employment, since each individual is free to work as long as he considers the real reward he obtains a sufficient inducement for his efforts" (Robinson, 1936). She further says,

Any community with an exchange economy and negotiable capital exhibits the main features of our own systems and in such a system, there is no reason to expect that full employment will be the normal state. On the contrary, full employment is only likely to occur in periods of abnormally rapid expansion, when inventions and discoveries are giving constantly renewed stimulus to investment. In a relatively

stagnant state of society we should expect under-employment to be the rule. Yet unemployment as we know it, is specifically the disease of an advanced economy (Robinson, 1936).

She then introduces the idea of ‘disguised unemployment’. She explains that in a society, which offers no unemployment benefits and lacks social security net of any kind, will necessarily ensure that ‘ a man who is thrown out of work must scratch up a living somehow or other by the means of his own efforts’ (Robinson, 1936).

Robinson then explains that a decline in effective demand in less advanced countries will not immediately show a decline in employment. But she cautions that this phenomenon needs to be investigated further. She says, “ In all those occupations which the dismissed workers take up, their productivity is less than in the occupations they have left” (Robinson, 1936). In other words, a decline in effective demand does not immediately cause unemployment, but instead diverts workers from high productivity occupations to lower productivity occupation. Robinson thus describes the phenomenon as follows, “The cause of this diversion, a decline in effective demand, is exactly the same as the cause of unemployment in the ordinary sense, and it is natural to describe the adoption of inferior occupation by dismissed workers as *disguised unemployment*” (Robinson, 1936). Robinson adds that the existence of disguised unemployment also ensures that there exists no unique relation between total consumption and total investment.

Following the introduction of disguised unemployment, Robinson comes to a very important conclusion that also has very significant policy implications especially for job creation in developing economies. She says, “The analysis of disguised unemployment makes it clear that while everyone is occupied for twenty four hours a day, so that the total amount of occupation can never be increased, yet unemployment can be said to increase

when part of man's time is transferred from an occupation in which his productivity is higher to one where it is lower" (Robinson, 1936).

Others have also used the idea of disguised unemployment to show that the Keynesian multiplier will not have full effect when this kind of unemployment exists. According to Rao,

The particular form which unemployment takes in the underdeveloped countries, viz that of disguised unemployment makes the economy for Keynesian purposes practically analogous with one of full employment; and to that extent prevents the multiplier from working in the direction of an increase in either output or employment (Rao, 1952)

Rao adds, "One needs to give up the assumption of a unique full employment. Apart from the level of full employment visualized by Keynes, there are as many levels of full employment as there are different stages of economic development.....(T)he economic process consists of two distinct categories: one where given the level of economic development, you move from low employment to full employment and the other where you move from full employment at a given level of economic development to full employment at the next level of economic development" (Rao, 1952).

Understanding employment and unemployment in the developing world has an important implication for policies. Job creation in such economies needs to be combined with productivity improvement of workers as well. Other than unemployment, there are a few more concepts in the Keynesian analysis that needs to be understood in the context of a developing economy.

Some further considerations.

V.K.R.V Rao in his paper, 'Investment, Income and Multiplier in an Underdeveloped Economy' shows some concerns over the effect of the multiplier and the general assumptions behind the Keynesian model.

Rao says that Keynes developed his model for a fully formed capitalist economy. And because of this, there are some assumptions in the Keynesian model that are not applicable to a developing economy. He points out to four such assumptions.

i) Involuntary unemployment, ii) An industrialized economy where the supply curve of output slopes upward toward right but does not become vertical until after a substantial interval, iii) Excess capacity in the consumption-goods industries and iv) Comparatively elastic supply of the working capital required for increased output (Rao, 1952).

The criticisms of the assumptions are discussed below.

a. Supply side Structural rigidities

One of main problems that developing countries face is the existence of structural rigidities on the supply side. For Rao, this came in the form of inelastic food supply.²³

According to Rao²⁴, India is a predominantly agricultural country with low technical know how. Most people in the country fall under the category of self employed poor. And because of this a significant amount of output is produced for self-consumption. Rao says,

In the case of a country like India the secondary, tertiary and other increases in income output and employment visualized by the multiplier principle do not follow, even though mpc is very high and the multiplier should therefore function in a vigorous fashion. This is because the consumption goods industries to which the increased demand is directed are not in a position to expand output and offer effective additional employment (Rao, 1952).

²³ This may not be applicable to a big country like India anymore, but is still relevant to smaller countries particularly in the sub Saharan Africa.

²⁴ Rao's analysis was based primarily on India.

Rao further adds that the consumption goods industry in a developing economy is primarily the food industry. In general, the food supply curve is highly inelastic. Rao explains,

Because mpc is high in such countries, the increase in the income of the agriculturists (due to an initial investment), will lead to a greater consumption of food grains-the increase in consumption may take the form of either increasing the quantity consumed or substitution of better quality grains for coarse grains-this leads to a reduction in marketable surplus (Rao, 1952).

This basically indicates that the food supply curve in such economies not only becomes vertical very quickly, it may also become a backward bending supply curve. Rao further indicates that the portion of increased income that is spent on non-agricultural commodities will also not result in increased income and output due to “absence of effective capacity in industries, difficulty of obtaining raw material and other ingredients for additional production, inelastic supply of skilled workers and various bottlenecks” (Rao, 1952).

The structural rigidity on the supply side was also noticed by Rosenstein-Rodan. According to Toye, “Yet what Rosenstein-Rodan said that the government would have to do was much more than what Keynes had advocated in industrial countries. Factories would have to be built and financed; labour would have to be trained to work in them; markets would have to be found for the new output, without disrupting those of the foreigners who might be a source of external finance.” (Toye, 2006)

In addition to the structural rigidities on the supply side in terms of food supply, the lack of technological capacity can also stop the multiplier to take full effect after an initial increase in investment.

b. Notion of Investment

According to Singer, the notion of investment in the Keynesian model is too narrow for developing countries. He says,

In the General Theory, and even more so the national accountings system and the Harrod-Domar growth model based on Keynesian concepts, investment is identified with the production of physical goods different in nature from consumption goods. These goods- by a combination of marginal productivity, multipliers and accelerators- produce subsequent income and create immediate employment...For developing economies, however, this very narrow concept of investment may seriously mislead policy makers (Singer, 1985).

Singer has pointed out that the notion of investment needs to be expanded for developing economies. According to him, investment in developing countries also should also include 'human investment'. Singer adds,

The Harrod Domar growth model based on the Keynesian analysis underlines the identification of investment with the production of capital goods. Now it is true that in the Harrod-Domar model allowance can be made for human investment not based on the production of goods through the capital/output ratio by which the rate of investment has to be divided in order to obtain the rate of growth. However the numerator (capital investment) has much higher visibility than the denominator (the capital/output ratio not specifically and visibly identified with human investment). This can and has misled development planners using the Harrod Domar formula to overrate the importance of physical investment and to underrate human investment (Singer, 1985).

Rakshit further explains, "In Keynesian economics the form of investment is unimportant. It does not matter whether we are building houses or factories, or adding to inventories: all such activities stand on an equal footing so far as their contribution to effective demand is concerned" (Rakshit, 1982). However, Rakshit points out that the composition of investment plays an important role for developing economies. According to Rakshit,

For an under developed economy, however, not only the aggregate investment and its sectoral breakdown, but also its timing and location are likely to be important. Because of the seasonality of agricultural operations, and the high cost of spatial transfer of labour, the short run effects of an investment programme will depend upon

whether investment activities are undertaken in the slack or the busy season; in rural or urban areas by organized sector enterprises based on wage system, or by family or cooperative units with a system of work sharing (Rakshit, 1982).

Rakshit explains that the kinds of goods that investment activities yield are also of great importance as there are great differences in the degree of price flexibility in different markets.

c. Other concerns

Apart from the notion of unemployment, structural rigidities and the definition of investment, there are a few more concerns that indicate that an increase in investment might not yield the desired levels of output and hence employment.

One such aspect of Keynesian economics is that resources are given. It is only during the time of recession, that these resources are not being utilized to its full capacity. Hence any additional investment at this time, will via the multiplier realize the full capacity of the economy. However, in developing countries, this is not possible. The problem in a developing economy is not only of overall demand management, but also of micro management.

Yet another difference between the economies of the developing world and the Keynesian analysis was that the policies prescribed under the Keynesian analysis was particularly useful for bringing the economy from a level of unemployment to that of full employment via short-term and cyclical policies. However, the problem of unemployment/underemployment in the developing economy is not a short-term issue, but has long term and structural characteristics to it. Singer says, “For developing countries on the other hand, the problem is long term-one of dynamics rather than comparative statics” (Singer, 1985).

The differences in using the Keynesian approach to developed and developing economies are significant, but not impossible to bridge. In the context of the developing world, majority of which is plagued by extreme poverty and income inequality, employment generation or rather employment generation, which induces increases productive capacity of the economy is extremely important. In addition, to employment generation programmes, what also becomes important is the nature of investment. Investment in employment generation needs to be accompanied by investment in easing out bottlenecks due to structural rigidities.

4.3. Kalecki and Developing Countries

In this section, we will examine the contributions of Kalecki to the understanding of the problems of developing economies. Kalecki's work on fully developed capitalist economies are founded upon the same economic framework as Keynes's. Kalecki, however was also aware that there are some key differences in the economic systems of developed economies and the developing economies. His analysis of the backwardness of the developing countries was enhanced by his greater emphasis on the role of political element in economic development.

Kalecki's most notable contribution to economic theory was the principle of effective demand, which he had worked out independently of Keynes. In his analysis, Kalecki made some important distinctions between the developed and developing countries.

He was aware that there was a fundamental difference in the nature of unemployment in developed and developing countries. He understood that while lack of effective demand can be a cause for unemployment, in developing countries, reasons other than the lack of effective demand could be the cause of unemployment in developing countries as well. Kalecki

explains, “Unemployment and underemployment in underdeveloped countries are of an entirely different nature. They result from the shortage of capital equipment rather than a deficiency of effective demand” (Kalecki, 1960). According to Ghosh, “Kalecki viewed the problem of unemployment as structural, resulting from the basic and endemic shortage of capital equipment as well as bottlenecks in the supply of necessities” (Ghosh, 2005). For Kalecki, any attempt by the government to increase employment via government spending would result in inflationary pressure if there exists a bottleneck in agricultural production. He explains,

Any increase in employment implies generation of additional incomes and this, if no adequate increases in agricultural output is forthcoming, an inflationary increase in the prices of necessities is unavoidable. The level of agricultural production sets, in the circumstances, a definite limit to employment possibilities even of a ‘pick and shovel’ variety (Kalecki, 1960).

As a result, the solution for unemployment in developing countries was seen to be more difficult and complex in nature.

Chakravarty in his essay titled ‘M. Kalecki and Development Economics’, notes that Kalecki’s argument that inflationary pressure could rise due to inelasticity of wage goods output was well used by many economists from the developing countries²⁵. Chakravarty points out that what made Kalecki’s analysis more interesting was that his analysis showed that ‘demand problem’ may coexist with the problem of inflation. According to Chakravarty, “Kalecki’s argument helps us to see the policy issues in a clearer perspective. Three major issues stand out from his analysis: a) the crucial role of increasing agricultural yield per hectare; b) the need for non-market mode of resource mobilization where rural labour surplus

²⁵ See discussion in the above section by V.K.R.V. Rao

exists and c) the need to strike a proper balance between productivity and employment in increasing industrial production. (Chakravarty, 1997).

Kalecki realized that this kind of inflation could be dealt with via taxing low income groups or necessities. But this would obviously not be in favour of any kind of social justice. Therefore, in order to combat the problem of unemployment in developing countries, it would be essential to increase agricultural production rapidly. As Kalecki puts it,

In conditions of rural overpopulation more intensive cultivation will make possible a higher transfer of labour from agriculture to other occupations. Indeed, up to a point, it will be possible to produce a higher output per acre with fewer people on the farm, without using labour saving techniques. At the same time the higher supply of food will make it possible to feed those who transfer to non-agricultural employment. Thus techniques which increase productivity per acre, eventually raise productivity per man even more (Kalecki, 1960).

Ghosh explains that Kalecki's analysis of under development and the problems of surplus labor in developing countries was very unusual at the time. This was the time, when most development economists²⁶ were advocating rapid industrialization to absorb the surplus labor in developing countries. As per Kalecki's analysis, while attention should be paid to investment in infrastructure and industry, it is also necessary to expand agricultural production to avoid inflationary pressure, which would ultimately lead to a decrease in real wages.

Kalecki also paid special attention to the techniques of production and its role in generating fruitful employment in developing countries. According to him, "...techniques, which raise productivity per man without increasing productivity per acre do not contribute to the overall solution of the problem of employment" (Kalecki, 1960). He believed that agricultural output could be increased without heavy investment by methods such as small

²⁶ See Lewis (1954), Rosenstein-Rodan (1943) (1944).

scale irrigation, proper use of manure, double cropping etc. Therefore, the problem of unemployment and the associated backwardness in developing countries, according to Kalecki could be dealt with an increase in agricultural output. In this context he also recognized the various problems posed by land relations and land ownership in developing countries.

Kalecki was an astute observer of the different class relations that existed in various developing countries of his time. He was well aware of the dynamics that occurred within the various economic classes of the developing economies and the consequences of such interactions on the political process of these countries. Kalecki categorized a number of countries of this era as 'intermediate regimes'. Some of these countries were India, Egypt and Bolivia. According to Kalecki, the main characteristic of such regimes were a large feudal class which was disposed, large capital which was not fully developed and the transfer of political power to the lower middle classes and the peasantry (Ghosh, 2005).

For Kalecki, the lower middle class could maintain its power by gaining economic independence from foreign capital, carry out land reforms and assure continuous economic growth (Kalecki, 1976). However, in order for the lower middle class government to carry out such measures, it would conflict with the 'comprador elements'. For example, when carrying land reforms, the government would clash with the feudal class. Kalecki further argued that this class would rely heavily on the existing native upper class to carry out the process of economic development. But, this is prevented by the weakness of this native upper-middle class, which is unable to undertake the 'dynamic entrepreneurship' for the economic growth of the country. Therefore the basic investment has to be undertaken by this lower middle class government. And it is this investment by the government, which leads to

‘...the pattern of amalgamation of the interest of the lower-middle class with state capitalism’ (Kalecki, 1976). Kalecki further explains that this system is especially useful to the lower middle class, the rich peasants, small firms and people from the ruling class who get absorbed in the executive and technical openings of the various state enterprises. He also asserts that the land reforms in such countries are conducted in a manner that results in the continuing presence of the middle class (money lenders and merchants) and the exploitation of the poor peasants by this class.

Ghosh explains, “Such state capitalism favours the lower middle classes (including small scale businesses) and peasantry, but continues to suppress the poor peasantry and rural proletariat, as well as urban workers” (Ghosh, 2005).

Kalecki talks about the situation in India with regards to the role of class relations in the development of the economy. He states that the development of agriculture in India is hindered by the poverty of the poor peasants and their dependence on merchants and the moneylenders and the lack of secure tenure for the poor farmers. He believed that development in Indian agriculture could be achieved with the ‘overcoming of these institutional obstacles by government policies which aim at strengthening the smallholders, in particular relieving them of their dependence on the merchant and the money lender, and at granting security of tenure to the cultivators who still do not enjoy it’ (Kalecki, 1960).

It is evident that much of Kalecki’s analysis of the developing countries may not be relevant today, as the ‘intermediate regimes’ have been replaced by a more free market approach by most developing countries. In addition, with more free trade, the inflationary pressure due to shortage of agricultural output might not be as relevant today. However, there are some key aspects of his work that have some great insights to the development process in

many developing countries. One such aspect is his deeper understanding of the nature of unemployment in developing countries and the second aspect is the interactions of the various economic classes in the process of development.

The continuing role of exploitative classes in the agricultural sector like the money-lender and the middlemen in contemporary India is a testament to Kalecki's in depth analysis of economies of the developing countries. As Ghosh argues,

The method of his analysis, rather than the analysis itself, serves as a useful inspiration to other assessments of the process of development, which look for explanation towards political economy and class configurations to understanding both economic policies and their effects. This is in sharp contrast to the purely "technocratic" assessments that are currently so popular, which abstract completely from the basic politics of development or view it only in terms of rather limited 'interest groups'(Ghosh, 2005).

Kalecki's explanation of unemployment and his suggestions to tackle the problem of unemployment helps us understand the various complications that can arise if one depends on markets to absorb the unemployed labor in a developing country.

In the next section we will analyse the growth path of one of the fastest growing economies in the world-India. In doing so, we will also see whether the growth has been conducive to employment generation.

4.4. The Case for Employment Generation in India.

We have so far looked into the theoretical foundations for job creation programmes in developing countries. In this concluding section, we will take a look at India and its planning strategy in the post independent era and in particular the growth pattern adopted by the country in the last twenty years. We will also analyse why this growth has not been an inclusive one. And in doing so we will make a case for an employment generation

programme that should be linked with both long-term inclusive development strategy and poverty alleviation.

India has been in the past decade declared as one of the emerging super powers of the world. With an average growth rate of almost 6 percent over the past few years, its emergence on the global scene has been an impressive one. Most of the investment has been carried out in the growing Information and Communication Technology (ICT) sector of the country. A large number of jobs have been created for skilled workers under this sector. This increase in investment and output has not been observed in other sectors. This trend calls for active fiscal spending to increase employment opportunities.

Over the past twenty years of neoliberal regime, the emphasis has been on export led growth. This kind of strategy has been associated with a downward pressure on wage rate and decreased domestic consumption in order to maintain its competitive edge. This strategy in itself implies that the purchasing power of the poor is decreasing and resulting in greater poverty. This would also imply a fall in the effective demand of the economy and consequently lower output and income. Bhaduri explains,

An even more typical example of this line of argument concerns labor market 'flexibility'. Its central focus is some form of wage restraint, either by holding down the absolute wage, or its relative rate of growth compared to productivity growth. In both cases, such restraints on wage would tend to depress not only the unit cost of production, which is the objective of the policy, but also the consumption demand from wage income (Bhaduri, 2005).

Ghosh also points out that the opening of Indian economy and the embracing of the free trade philosophy as an effective method to increase employment was fundamentally flawed. The rationale was that trade liberalization would lead to a restructuring of production towards economics activities in which India had comparative advantage. These activities

were considered to the labor intensive activities. So while, it was predicted that there could be job losses at the beginning of the reform period, trade liberalization would lead to more sustainable forms of employment in the long run. Ghosh argued that this kind of economic philosophy was biased against labor. She explains that when trade liberalization occurs it is implicitly assumed that international market for most of the traded goods are free and competitive. But in many cases, this is certainly not true. The market for agricultural commodities for example, are heavily biased towards the farmers of the developed countries, who are able to get large farm subsidies, better quality infrastructure, etc, thus making them more competitive in the international markets. She points out to yet another misguided assumption behind this approach that claims that capital and labor can move from one activity to another, which would lead to structural transformation. Also, neoclassical theory of trade assumes full employment when discussing the positive impact of free trade and comparative advantage, which is yet another flawed assumption.

Therefore the opening up of trade in India has lead to two important results. Firstly, there has been a downward push of real wages. This has a serious consequence on the multiplier effect that can have a positive impact on growth of an economy. Lower wages for workers would also imply lower spending by this group. Lower spending by this group, which also happens to be a large section of the labor force would also imply a smaller multiplier effect on the economy. Secondly, trade liberalization has also increased the uncertainty associated with employment conditions. In order to maintain competitive edge in the world markets, employers have cut costs by flaunting labor laws when possible, extending work hours and not providing their employees with any benefits.

Yet, another factor that has contributed to the growing unemployment in the rural sectors of the country is the reduction in investment in social capital. The nature of growth in India has been an exclusive one. The ones who have been able to take advantage of the growth pattern in India have been mainly the educated middle class. Due to the fiscal constraints on the government, large cuts have been made on various public funded social programs. This has invariably led to a decline in access to education, health care etc. One of the main drawbacks of this has been the lack of skill creation for a large section of the population.

There has been a growing debate about the impact of neoliberal policies on poverty reduction. According to the UNRISD report,

Sustained levels of growth have reduced poverty in aggregate terms. According to official statistics, income poverty began to decline from 50 per cent of the population in 1977-1978 to about 27 percent 2004-2005. But the rate of decline is estimated to have been faster in the 1980s, compared to the 1990s and beyond, suggesting that poverty reduction suffered a setback after the initiation of neoliberal reforms (UNRISD, 2010).

From the reasons mentioned above, one can see why it is crucial for the India to invest in employment generation program if it wants to rid itself of chronic poverty and seek greater development. In addition to creating employment, what is key for long-term growth and decreasing poverty is injecting money in the sectors that have lagged behind. It is these sectors (i.e. agriculture and industry), which are capable of creating large-scale employment opportunities and the conditions for the Keynesian multiplier to take effect. Increasing productivity of workers and increasing employment should not be considered to be separate goals, but need to be pursued together. In order to do this, investment needs to be made in social capital as well.

Employment generation schemes by the government is crucial to alleviating poverty. But in addition to this, more attention needs to be given to the nature of investment and increasing the productivity of workers. This will allow workers to not only earn better wages, but also allow them to have an opportunity to undertake ‘decent work’. Also employment generation programs should focus on increasing the productive capacity of the economy. The role of state needs to become much more significant in the face of deteriorating conditions of the majority of the work force.

This chapter so far has only set the theoretical foundation for the case of employment generation schemes. In the next chapter we will examine the existing National Rural Employment Guarantee Act (NREGA) and the possible linkages to increasing the productive capacity of the economy and long term development of the rural economy.

CHAPTER 5

SURVEY FINDINGS AND EVALUATION

One of the key objectives of governments of developing countries is to ensure that their most disadvantaged people come out of poverty and live better lives. The role of a government in this case should not only be to help people get access to resources that are required to gain material well-being, but also to offer people job opportunities when the market is unable to offer fruitful employment.

The National Rural Employment Guarantee Act is an employment-generation program that was enacted by legislation in India in 2005 in order to guarantee employment to the poorest section of the society.

The chapter investigates the impact of the National Rural Employment Guarantee Act (NREGA) on economic development in India. In order to carry out this analysis, village-level surveys were conducted. A qualitative approach has been taken to evaluate the impact of the Act on economic development using the capability approach. The organization of the chapter is as follows: section 1 reviews some of the salient features of the Act, section 2 gives a detailed description of the village-level surveys and their basic findings; section 3 examines the capability approach to development; section 4 employs the capability approach in evaluating the impact of NREGA on development and section 5 concludes the chapter by advancing the argument that the impact of NREGA should be examined based on a broader understanding of development.

5.1. Review of the Act

NREGA has some very important provisions to ensure the inclusion of the marginalized sections of the society. The Act also allows for a more transparent and efficient implementation of the program. Some of the key features of this Act are discussed below.

Women in the Act: The Act provides for a 33 per cent participation rate of women in the projects that are undertaken. The participation rate of women has surpassed the provision in the Act. In 2010-2011, the participation rate of women under the Act at an all India level was at 48 per cent. The greater inclusion of women under this Act has an impact at two levels, i) additional income to the household and ii) greater decision making power at the household level.

Sharma explains that because there is an element of self targeting in the Act, it is very useful for women to make a choice about work. There are no pre requisites to work under this Act except for ‘willing to do unskilled’ labor. Sharma explains, “ This self- targeting, with no criteria of poverty and unemployment, and with the flexibility to drop in and drop out makes it easy for women to participate” (Sharma, 2010).

Women are typically paid much less than men in the private sector. However, under the Act, women and men get paid equal wages. This has made significant difference in the livelihoods of many women. Field surveys undertaken by Dasgupta and Sudarshan in 2011 across three states studying the impact of NREGA on women found the three main reasons for women to seek employment under the scheme are proximity of work to home, not having to look for jobs and the government is considered as a trusted employer. Other reasons for greater women participation under the Act are elimination of private contractors in the work place, better working conditions compared to other job opportunities, predictability of

working hours and the works are socially acceptable in most areas. The Act also provides for day care centres for women with small children at the work site. Many women have found this provision especially useful and have therefore found employment opportunities under the Act more valuable.

Schedule caste and Schedule Tribes and other disadvantaged groups in the Act: One of the priorities of the Act is provision of irrigation facility, horticulture plantation and land development facilities to land owned by Scheduled Castes (SCs) and Scheduled Tribes (STs) or below poverty line (BPL) families. The participation of the people from such groups has been encouraging. In terms of person days created SC's accounted for 30 per cent and STs accounted for 21 per cent in 2009-2010. One of the key reasons for such high participation is the Act cannot discriminate between people based on their caste and social backgrounds. On the other hand many backward communities face discrimination in terms of employment opportunities in the private sector.

Villages with higher percentage of SC and ST communities have also been found to organize themselves into local self help groups and take advantage of the provisions under the Act.

Transparency and monitoring in the Act: Another important aspect of the act is the provisions made for making the Act much more transparent in terms of its implementation. The provisions include proactive disclosure (including availability of records at the Gram Panchayat and in public domain), social audit by Gram Sabhas, grievances redressal and penalty. List of works have to be published, work output should be displayed on a board on the work site before work is started and no contractors will be allowed at any level of the project. Gram Sabhas are primarily responsible for the social audits and States, districts and

blocks are responsible for proactive disclosure and grievance redressals. Proactive disclosure includes maintenance of detailed records by the government on inputs, processes, outputs and outcomes related to NREGA. In addition to this, all information pertaining to NREGA also has to be made public via display of information on Gram Panchayat bulletin boards. To increase access to information regarding NREGA, an integrated Monitoring and Implementation System has also been developed. NREGA guidelines stipulate that all information regarding NREGA projects be uploaded on to the MIS systems regularly.

Monitoring of the Act is also key to its successful implementation. Social audits is one of the ways in which monitoring is done. This process involves cross verification of government records with realities on the ground. NREGA requires regular audits be made in the Gram Sabhas at least once every six months. Social audits consist of recruiting volunteers (usually wage seekers families), training these volunteers and then assigning them villages, where they go and conduct the audits. It is made sure that the volunteers do not go to their own villages to conduct these audits. The audits consists of interviewing the card holders and verifying the information that is on their job cards, gathering information about the projects that have been started under NREGA. Once all this information is collected, the auditors share this information with the job seekers at a public meeting in the village. During these meetings, the information that is available via government records is verified with the information gathered from the participants of the Act. This includes amount of wages that have been disbursed to the workers. This process itself limits to some extent the level of local corruption in the disbursement of funds.

A study in of social audits in the state of Andhra Pradesh by Aiyar and Samji revealed due to social audits knowledge about the provisions in the Act increased dramatically. For

example, only 31 per cent of the respondents were aware that the Act offers 100 days of employment before the social audit. This shot up to 88 per cent in round 2 and went up to 99 per cent in round 3. The audits also made the participants aware that machines could not be used in the projects under NREGA. Prior to the social audits only 25 per cent of the respondents were aware that NREGA was a demand driven program. This number rose to 74 per cent after the first round of social audit. The social audits were also responsible for some changes in the facilities available at the work site like availability of drinking water, first aid and shaded areas for rest.

NREGA has been instrumental in redefining the process of development in India. While earlier development programs were mainly based on the notion of increasing welfare via hand out schemes and cash transfer, NREGA combines two important aspect of development – i) access to income via creation of jobs, thereby using the under utilized labor resources of the country and ii) creation of physical infrastructure and physical assets in the rural areas. Most development programs are aimed at poverty alleviation of the poorest sections of the society. Due to the fact that NREGA is rights based Act, it makes the process of development a two step process. One it makes the government liable for the implementation of the Act and two communities and local governing bodies become crucial in the development process.

5.2. Field Surveys and Findings

For a more comprehensive look at the program, four short-term field surveys of NREGA were conducted in order to gauge the impact of the Act on its participants. The states of Haryana and West Bengal were selected on the basis the number of person days they had generated under the program. One of the main reasons for selecting these two states was

the fact that Haryana's performance in implementing this program has been relatively better than West Bengal's in many areas²⁷. West Bengal has been one of the worst performing states in the country so far.

Village level surveys were conducted in these two states. The surveys consisted of both personal interviews with the beneficiaries of NREGA as well as with the village heads²⁸. The interview questions were open ended to allow for detailed responses from those interviewed. Every attempt was made to control for gender bias by including both men and women as participants in the survey.

The surveys were conducted at two different levels. An exploratory survey was conducted at a single village in Haryana and a more detailed survey was conducted in West Bengal with surveys being conducted in three different villages. The surveys were short term in nature.²⁹

The interviews focussed both on the economic indicator which included the impact of the additional income earned on the consumption expenditure and non-economic indicators, which included the impact of the program on the daily lives of the participants as direct result of the physical assets created under the program and the level of community involvement in determining the kind of work to be done.

²⁷ Rajasthan and Madhya Pradesh have been the best performing states in terms of average person days generated.

²⁸ Village heads also known as the *Sarpanch* is an elected head of the village or the gram sabha.

²⁹ The short-term nature of the surveys is a limitation of the study. A larger number of villages were therefore surveyed to get a more generalized reaction to the program. The focus of the survey was to investigate whether there were any commonalities in the assessments of the program under consideration across the country.

The Act aims to increase the number of person days per household. The average number of person days created in the two states since the implementation of the Act can be seen below in Table 12.

Table 12. Average person days per household.

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 ³⁰
Haryana	48	49	42.41	37.74	35.79	30.85
West Bengal	14	18	26	33.42	31.07	14.45

Source: www.nrega.nic.in

In terms of the average number of person-days per household, Haryana's performance was significantly better than West Bengal's each year since the start of the program except for in 2009-10 and 2010-11. Though neither state had been able to create anywhere close to 100 days of employment, Haryana's performance was closer to the best performing states.

The Act aims to target the poorest sections of the rural populations. Additionally, it aims to reach the most disadvantaged people, which include women and members of the Schedule Caste (SC). The participation of disadvantaged groups in these two states for the year 2009-10 can be seen in the Table 13 below.

Table 13. Participation of Marginalized groups

	% of SC participation	% of ST participation	% of women participation
Haryana	53.61	0	34.81
West Bengal	36.86	14.38	33.42

Source: www.nrega.nic.in

Participation of disadvantaged groups in NREGA has been comparable in both states. While the participation of SCs was higher in Haryana than in West Bengal, it should be noted

³⁰ Up to latest month available. The data was accessed in February 2012.

that the participation of ST groups there is 0 because its ST population is negligible. The participation of women was comparable in both the states.

One of the more difficult issues within the scope of the Act is the determination of wages. The economic rationale behind employment generation programs is to offer wages below the existing market rate or minimum-wage rates so that labor resources are not drawn away from the private sector. Real wages under NREGA are delinked from minimum wage rates and are rather adjusted for inflation using the Consumer Price Index (Agricultural Labourers).

Table 14. Wage rate under NREGA

	2007-08	2008-09	2009-10	Revised wages	Minimum wages for agricultural workers
Haryana	135	141.02	141.02	179	167
West Bengal	69.43	75	100	130	96

Source: Sharma, 2010

5.2.1. Village 1³¹: Haryana

This village, located in district of Mewat in Nuh block is a part of Salamba village panchayat or Gram Panchayat and is in close proximity (about 45 kilometres) to Gurgoan, a highly urbanized area close to the national capital of New Delhi, to which it is connected by state highway 13. There are regular bus services between Gurgoan and Nuh but in order to get to the village one has to walk or use a private vehicle from the highway. Most villagers walk, as they do not have access to private vehicles.

³¹ While the district, block and the Gram Panchayats have been identified in this study, villages have not been identified in accordance with the SSIRB requirements to ensure privacy of the respondents.

85 percent of the population in this village are Mayos (backward Muslim groups) and the remaining are non-Mayos. The average family size is 9.5. One of the main problems faced by this village is an acute shortage of water. Water tables are unusable for human consumption because water is not potable. Drinking water is bought by villagers from private water tankers that come to the villages on a weekly basis. Expenditure on water is one of the most significant portions of their expenditure.

The village has 264 households that have registered for jobs under the program. Of these, 8 are below poverty line (BPL). The total number of people registered under the program is 483.

20 people were interviewed during the survey of this village. Of these, 15 were men and 5 women. All the male respondents were involved in two main economic activities: during agricultural cycles, they worked as daily agricultural workers and during the off-season, they migrated to nearby towns to work as construction workers, rickshaw pullers, etc. When in such towns, they typically did not have any accommodations and would generally sleep on footpaths or other open spaces. Of the people interviewed none was a landowner, but they sometimes worked on land leased to them by landowners to grow mustard, wheat and fodder for animals.

Women typically stay at home to attend to household chores but are also involved in collecting fodder for animals and collecting drinking water for cooking and other household chores.

Impact of NREGA

Of the 20 people interviewed, all were able to secure 52 days of work under the program in 2010-2011, which was higher than the state average of 35.7 days for the same

year. Payments to the workers were made on time. Of the 15 men interviewed, all found the income earned under the Act was insufficient to support their families during the lean seasons. 12 of them agreed that if 100 days of work were provided as the Act directs, their financial state would be much less precarious. The remaining three added that better organization was needed to demand for work and improve the situation of the workers. There had been no significant change in migration since the implementation of the Act. With the exception of the women interviewed, all the men said that they still had to go to nearby big cities to look for work.

Only a few of the respondents indicated that their households debts had decreased slightly since they started to working under the Act.

The projects that were undertaken were the creation of unpaved roads and the creation of rainwater catchment areas for water conservation. 250 people were able to procure work in the NREGA projects in 2010-11. In this particular village, unpaved roads were recently constructed. Since the survey was conducted during the summer months, one could not establish the impact monsoons would have on the unpaved roads. The catchment areas were considered as the most valuable assets created under the Act. The female respondents found the creation of these assets especially valuable.

This survey was aimed to investigate the impact of NREGA on the participants at two levels. The 20 people who were interviewed during this phase of the survey revealed that the impact of the wages paid under the Act was insufficient to significantly change their consumption patterns. However, the impact of the asset creation on the quality of life seemed to be much more significant. This was especially the case for creation of catchment areas for rainwater.

Based on these findings, more detailed surveys of three villages were conducted in West Bengal. Since the survey in Haryana did not indicate a significant impact on incomes or consumption expenditure, the second round of surveys concentrated more on the assets created under the Act and the economic and non-economic impacts of these assets on the participants.

All the villages surveyed in West Bengal are in Birbhum district, which is situated in northern part of the state.

5.2.2. Village 2: West Bengal

This village is situated in the Bolpur-Sriniketan block of Birbhum district and is part of Kasba Gram Panchayat, which consists of 10 villages. 4642 households were registered under the Act; of these 22 were BPL.

This village consisted of 186 households and 900 people. 25 people were interviewed in this village. Of these 25, 7 were women and 18 were men. All the respondents had participated in NREGA in the previous year. All the male respondents were farmers, but none were landowners, so all of them leased land from bigger landowners during harvest season. The landowners provided the farmers with seeds and fertilizers while the cost of all other inputs were borne by the farmers. The two main crop cycles in this region are rice and mustard. Most of the farmers in this village were subsistence farmers. Occasionally, they were able to sell their produce at local markets and their grains to the local grain mills. During lean seasons, most of the male respondents typically found work in neighbouring towns as construction workers and masons. All the women respondents were involved in household work and did not seek work out side of the villages.

Impact of NREGA

Of the 25 people interviewed, all were able to find around 25-30 days of work, which was slightly lower than the state average of 31.07 days for the same year. Payments were made on time. Of the 18 men interviewed, 14 indicated that the additional income provided by the Act, while making only a marginal difference in their consumption patterns, helped them meet their basic household needs and made it unnecessary for them to seek jobs in urban areas during the lean seasons. Some of the respondents also said that while there was a demand for jobs, there wasn't enough work for the creation of assets generated under the Act.

The projects undertaken in this village consisted mainly of the building of roads and the creation of catchment areas for rainwater. 4 unpaved roads were built to connect it to the neighboring villages and to the main highway. A concrete 600 meters long road was also built to connect two schools. There were three catchment areas that were constructed under this Act, each of which had rainwater in them during the survey period. Of these three, two were for irrigation of agricultural land and one was for providing water for household purposes like washing clothes and dishes while also being used to breed fish for the consumption of village residents. Despite the improvement in the availability of water, agriculture is still heavily dependent on monsoons. The survey was undertaken after a good year of rainfall, which had a significant impact on the usefulness of these assets created under the Act.

Of the 7 women interviewed, 1 was actively involved in the village-level planning of asset creation in the village. Each said that they had been able to earn some additional income for their families under the Act.

5.2.3. Village 3: West Bengal

This village is also located in the Bolpur-Sriniketan block and is part of the Bahiri Panchshowa Gram Panchayat. 454 households in this village were registered under the Act. 24 people were interviewed in this village³²; of them, 14 were women and 10 men. The main economic activity of this village was agriculture and all the respondents were landless agricultural workers. Some of the respondents were involved in petty trade like basket weaving. Some of the women respondents also worked in nearby towns as maids.

Impact of NREGA

All 24 respondents had worked under the Act in the previous year. None of the respondents indicated a significant difference in income and consumption due to the income earned through the Act. Payments were made on time.

Pond excavation was the primary asset-creation project undertaken in the previous year with the NREGA funds. Once the catchment area was created, the local Gram Panchayat and self-help groups initiated a two-stage program of land levelling and social forestry. From a total of Rs 25,000³³, 20% of these funds were invested by the local self help groups³⁴ and the remaining 80% by the Gram Panchayat. Under this two-stage process, kitchen gardens were planted around the pond created under NREGA. Various vegetables, like ladies fingers and bitter gourds and fruits like bananas, papayas and lemons were grown around the pond. The pond itself was the main source of irrigation. Manure for the kitchen garden was

³² All the respondents in this survey were part of the Scheduled tribe community. Most villages in this area are divided into *paras* or neighborhoods. Each neighborhood typically constitutes people of one particular caste or tribe.

³³ US \$ 1~ INR 50

³⁴ Self help groups are groups of 5-20 people of the same low level of economic conditions living in the same locality or hamlet. Participation is voluntary. These groups meet periodically to oversee the weekly or monthly savings of the members and utilize those funds for local development projects.

supplied by the local vermicompost. Fish harvesting was also undertaken with the help of the local self-help groups.

All the vegetables and fish were sold in the local markets. Earnings from these sales were additional income for the households who are directly involved in the maintenance of the kitchen garden and vermicompost bin.

The participants of the survey also said that the next step in the project was to invest in chickens and ducks in order to sell their eggs in the local markets.

All the respondents were involved in the creation of the pond under NREGA. The income earned via the program had made marginal changes in their overall income. However, the asset created under the scheme was found to be much more valuable due to the economic opportunities that were generated. All the respondents also agreed on the importance of community work and cooperation between the Gram Panchayat and the local self groups in the development of this project.

Of all the villages surveyed, this was the only one in which more women participated in the program than men. Employment was also given to 2 people who were handicapped.

5.2.4. Village 4: West Bengal

This village is located in the Bolpur-Sriniketan block and is part of the Kankalitala gram panchayat, which consists of 15 villages. A total of 4248 households were registered under the Act in this Gram panchayat. This village has 282 households and a total population of 1,333 people. 15 people were interviewed in this village, 12 of whom were men and 3 women. All the respondents had participated in NREGA during the previous year. All the men were daily agricultural workers. Unlike the other villages surveyed, this village had only one harvest season the previous year. During off seasons, most of the respondents had to seek

work at local brick kilns. One of the main concerns of the people in this village was an acute shortage of drinking water.

Impact of NREGA

Respondents indicated that they were able to secure only about 10-15 days of work in the previous year. One of the main complaints of the respondents was with the delays in payments, which they said were delayed sometimes up to 6 months. They were paid a daily wage of Rs. 130 per day, however, because the person days created under the Act were few in this village, the income earned under this program was not significant. Another concern voiced by the participants of this survey was that the contractors in charge of procuring material for the projects under the Act would often bring their own workers.

Asset creation was very poor in this village. They had created two catchment areas for rainwater in the previous year, but because the work on them had started after the monsoons, neither had much water in them. Also, most respondents said that there was a lack of interest at the Gram Panchayat level to create more assets and implement the program more efficiently due to the political affiliation of the village.

Table 15. Summary findings

	Village 1	Village 2	Village 3	Village 4
Total respondents	20	25	24	15
<i>Impact on income</i>	X	X	✓	X
<i>Impact on migration</i>				
Less migration		✓	✓	
Same migration	✓			✓
More migration				
<i>Impact on indebtedness</i>	Insignificant	Insignificant	Marginal	None
<i>Asset creation</i>	Ponds (1)	Ponds/catchment areas for rain (4)	Pond (1)	Ponds (2)
	Unpaved roads	Unpaved roads (4)	Kitchen garden/Social forestry	
		Paved road (1)	Vermi Compost pit	
		Fisheries	Fisheries	

Source: Calculations based on filed surveys conducted in the states of Haryana and West Bengal in May-June 2011

5. 3. Capability Approach to Development

One of the pertinent issues for such an ambitious program is the impact it has on its participants. Access to employment is crucial for the economic and social well-being of individuals.

How does an Act that guarantees rights-based employment contribute to the process of development itself? In order to answer this question, we must first understand what development means given our particular context.

Fukuda-Parr (2003), in her paper “The human Development Paradigm: Operationalizing Sen’s Ideas on Capabilities”, writes about three different approaches to development: the neoliberal alternative, the basic needs antecedent and the human development approach.

The concept of well-being according to the neoliberal alternative, says Fukuda-Parr, is that of utility maximization and is primarily concerned with economic growth and efficiency. The measurement tools for this approach are aggregate measures like GDP growth and per capita income. The key operational goal for this approach is economic growth. Under this approach the individual is the fundamental agent and human resources are means for economic activity.

Basic needs antecedent is fundamentally different from the previous approach. According to Fukuda-Parr, the concept of well being under this approach is entails meeting basic needs. The main evaluative tool under this approach is poverty reduction by means of income and access to basic social tools. This approach is concerned with expanding social services via stronger political will.

However it is the third approach-the human development approach, which has radicalized the way development has been perceived since the end of World War II. This approach has criticized the narrow understanding of development and the emphasis on growth rates of GDP for development and well-being.

We will be using the last approach, i.e. the human development approach, which is founded upon the capability approach in this paper. This approach encourages us to think of development from a different and a more useful perspective.

Developed by Amartya Sen, the Capability approach has been used since the last 20 years as a foundational framework to understand the process of development. Sen's contribution came as a critique to the utilitarian framework for evaluating welfare and development. In his book, *Development as Freedom* Sen explains,

Development can be seen, it is argued here, as a process of expanding the real freedoms that people enjoy. Focusing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the rise of personal incomes or with industrialization, or with technological advance or with social modernization (Sen, 1999)

The main focus of Sen's approach is to expand the notion of development from a narrow focus on utility maximization and meeting basic needs for human survival. According to this approach, development should be understood in terms of people's capability to function, to have access to opportunities to undertake activities, which they themselves value for their own well-being. This approach is a normative approach. According to Sen, there are two main aspects to the capability approach: functioning and capability.

Sen explains functionings as follows, "The concept of functionings...reflects the various things a person may value doing or being " (Sen, 1997d). Valued functioning according to Sen will vary from individual to individual, i.e. valued functioning can range

from being adequately nourished to being able to take part in community life. Valued functioning is a direct result of one's physical and social environment.

Capability on the other hand refers to the "alternative combinations" of functionings that are feasible for an individual to achieve. Sen gives the example of an affluent person who fasts and of a destitute person who is forced to starve. In both the cases, the achieved functioning is the same: neither eats. In the case of the affluent person, however, fasting was a matter of choice. She was free to choose from a variety of alternative functionings, whereas the destitute person has no choice in her achieved functioning. Sen explains,

The set of alternative functioning vectors available to her for choice is called her capability set. While the combinations of functionings...a person undertakes reflects her achievements, the capability set represents the freedom to achieve: the alternative functioning combinations from which this person can choose (Sen, 1997d).

According to the capability approach then, development should be an expansion of these freedoms, an expansion of the capability set an individual faces. Using this approach, Sen points out that if development is indeed expansion of an individual's freedom, then one has to distinguish between human beings as means and ends for development. According to him,

Seeing human qualities in terms of their importance in promoting and sustaining economic growth, significant as it is, tells us nothing about why economic growth is sought after in the first place, nor much about the role of enhanced human qualities in making it directly possible for us to lead a freer and more fulfilling lives (Sen, 1997d).

Sen argues that instead of looking at human beings as a means to end, we must focus on the direct impact of social policies on their lives. For example, the expansion of social services like health care and education should be considered as "developmental" since they allow individuals to have more "freedoms". Increase in labor productivity and actual production commodities as a result of such social policies should be purely a secondary focus. "Indeed,"

Sen explains, “even as far as expansion of commodity production is concerned, it has to be borne in mind that they are valued, ultimately, not for their own sake, but as means to human welfare and freedom’ (Sen, 1997d).

The building blocks of the capability approach are as follows: commodities, conversion factors, capability set, agency/choice and functioning or achieved functionings. Ingrid Robeyns (2005) presents these building blocks in a schematic representation in her paper, “The Capability Approach: A theoretical survey”. An adaptation of the non-dynamic schematic representation can be seen below in figure 5.

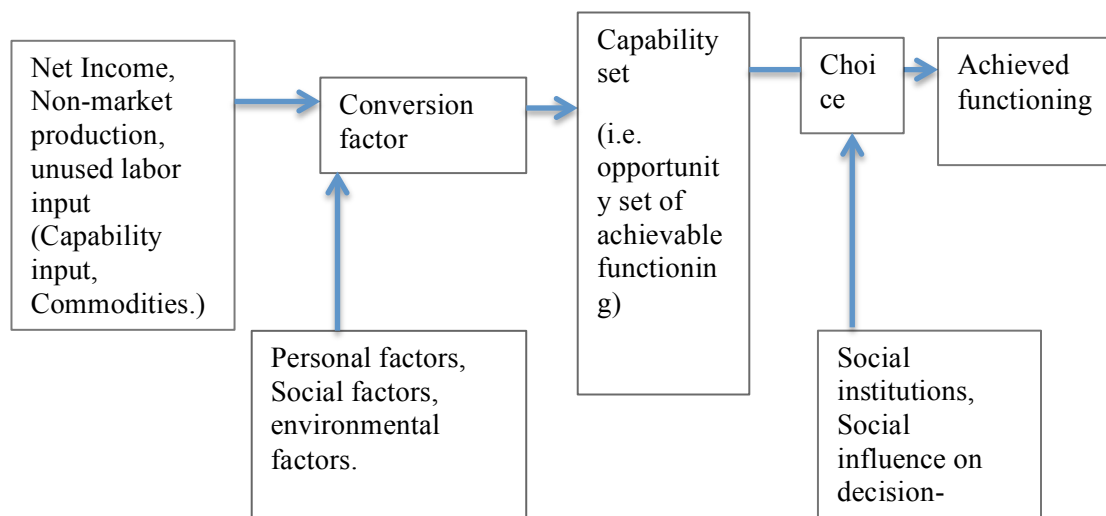


Figure 5: Building blocks of the capability approach.

Source: Robeyns, 2005.

According to Robeyns, there are goods and services that by themselves may not offer much to an individual. These goods and services have to be converted into something that might be of more use to the individual involved. These goods and services can be called as either capability inputs or commodities. Alexander Georne (2010) in his paper, “The Capability Approach in Social Analysis” explains, “Commodities are resources the

individual can dispose of. Examples are money, or other material goods-a bicycle, a television, etc. Less material goods such as skills or habitual behaviour could also be conceived of as commodities” (Georne, 2010).

Various conversion factors are required to convert these capability inputs into functionings, i.e. beings and doings that are valued by individuals. Robyens explains, there are three groups of conversion factors: personal conversion factors, which include one’s metabolism, physical condition, reading skills, intelligence, etc; social conversion factors which includes public policies and social norms; and environmental conversion factors which include climate, geographical location, etc.

The next building block is that of a capability set. As explained earlier, capability set refers to an alternative combination of functionings. The capability set for an individual will consist of many different combinations of functionings. Sen restrains from giving a list of capabilities that individuals value. According to him, capability set consists of many different possible functionings and this set is determined based on what the individual finds valuable for their own well-being. Sen does, however, talk about “basic capabilities”, which are a subset of all capabilities. In Sen’s work, basic capabilities refer to the freedom of access to some basic things that are necessary for survival and to escape poverty. Robyens explains, “...while the notion of capabilities refers to a very broad range, basic capabilities refer to the real opportunity to avoid poverty. Basic capabilities will thus be crucial for poverty analysis and more generally for studying the well-being of the majority of people in developing countries” (Robyens, 2005). One of the key benefits of the capability approach is that it can be used to evaluate freedoms and development in affluent societies as well. It is in this case,

that the set of functionings that form the capability set tends to become much more complex and normative in nature.

An analysis of conversion factors usually refers to external impediments to the ability of individuals to convert basic inputs into capabilities. While the actual selection of a particular functioning from the capability set is often seen as an individual matter, the choice may be influenced by a set of social and cultural norms. Robeyns (2005) argues, “It is, however, important to question to what extent people have genuinely access to all the capabilities in their capability set”.

Having discussed the building blocks of the capability approach, we will now use this approach to evaluate the impact of NREGA on the development and well-being of individuals who have participated in the scheme.

5. 4. Using CA Approach to Evaluate NREGA

The first step is to identify the capability input in rural sectors in India that can be converted into a possible capability set. We assume, the existence of under-utilized labor resources as the capability input for the reason that majority of rural workers do not own land or own very little land and therefore do not have access to any sources of livelihood other than their own labor power. For example, the percentage of land holdings under small or marginal farmers has gone up from 70 percent in 1970 to 82 percent in 2001 (Sharma, 2010). In the surveys conducted by this author, more than 90 per cent of the respondents did not own land and were mainly daily wage workers. Drèze and Sen explain, “ A wage labourer owns her labour power, which she can then exchange for some commodity bundle or other” (Drèze and Sen, 1989). In such a case, rural worker’s main source of livelihood is his or her own labor power. According to Sen, “ Work and income we receive in return for selling our

labour power generates functionings, capabilities and ultimately utility for employed person” (Sen, 1981).

However, precarious employment opportunities not only affects the income of most rural workers, but also contracts their capability set. For the purposes of our analysis, unused and under-utilized labor sources are therefore the primary capability input.

The next building block in our analysis is the conversion factor. In our case, the conversion factor is a social conversion factor in the form of a public policy-i.e. NREGA. As mentioned earlier, this Act ensures a right to employment and can therefore be seen as a conversion factor because it gives the unused and under-utilized labor power of rural workers access to fruitful employment opportunities. Job creation also results in an expansion of the capability set of individuals. The expansion of the capability set can be seen in column 3 of Table 16 below.

Both job creation, and the utilization of unused physical resources like land and water to create assets for the rural poor have led to an expansion of the capability set of the rural population. The expansion in the capability set due asset creation can be seen in the second half of Table 16.

A point of contention however is that there is a value judgement associated with the determination of a capability set. Sen, for instance argues that in order to assess social policy, we must pay attention to individual formulations of well-being.

Sen has consistently refrained from providing a list of functionings that should be considered a universal list of capabilities. As a result of this, some of the most common questions that come up while using the capability approach are which capabilities matter and how are they determined. Martha Nussbaum, who has criticized Sen for not endorsing a

universal list of capabilities, has offered a universal set of her own consisting of 10 categories: life; bodily health; bodily integrity; senses, imagination, and thought; emotions; practical reason; affiliation; other species; play; and control over one's environment (as cited in Robeyns, 2005). However, Sen's response (2004) to such criticism is that it is not the job of a theorist to cement a universal list of capabilities. According to him, "... (P)ure theory cannot 'freeze' a list of capabilities for all societies for all time to come, irrespective of what the citizen comes to understand and value. That would not only be a denial of the reach of democracy, but also a misunderstanding of what pure theory can do, completely divorced from the particular social reality that any particular society faces" (Sen, 2004). Therefore Sen focuses more on public discussion and democratic debate in determining a list of capabilities within a given societal framework. Unterhalter explains,

Governments using the capability approach therefore have an obligation to establish and sustain conditions for each and every individual, irrespective of gender, ethnicity, race or regional location, to achieve valued outcomes. These may entail acquiring a certain level of educational attainment, but they undoubtedly entail ensuring the freedoms that allow valued outcomes to be articulated and achieved (Unterhalter 2003)

Within the context of NREGA, the key is to understand that capability set consists of outcomes that are valued by participants of the program. In using this approach we have taken the opportunity to interact with the participants of the program to learn what they value for their well-being.

As part of the surveys, participants were asked how NREGA had impacted their lives and well-being, through the creation of jobs and assets for the rural economy. Their responses have been used in making a list of capabilities for the participants of this program.

It should be noted, however, that this list is not an exhaustive list, but only a subset of all the possible functionings that individuals value.

For example, when participants were asked whether the additional income from the program had enabled them to change their expenditure pattern and whether that was important for them, they all responded that the program had improved their ability to earn additional income and to secure jobs close to their homes. All the respondents also said that they valued the fact that they were now able to demand work from the government when they were unemployed. The capability set for women also showed some degree of expansion. For example, when women were asked what positive changes they observed in their lives that they valued since the introduction of the program, they named their ability to participate in decision making at home, to earn additional income for the family and to take better care of their children. In other words, the impact of job creation under this Act gave them a sense of freedom to choose between earning additional income when needed or staying at home when required. Most of the women who were interviewed during the survey said that they could not seek work out of their villages due to social and infrastructural restrictions. Because jobs generated by NREGA gave them the freedom to work in their own villages if they wished, if a woman remains at home to take care of her children, she does so out of choice rather than compulsion.

Asset creation also impacted the expansion of their capabilities³⁵. For example, when asked about the usefulness of unpaved roads in the villages, many villagers responded that they could now get to a hospital in case of an emergency more quickly than before. Easy

³⁵ The responses of individuals from each village tended to coincide with their co-villagers. This is not surprising, as the various environmental and social factors that are involved in determining one's capabilities will influence individuals who live in a similar surrounding. In our case, it is the village unit.

access to health care was particularly highly valued in village number 2. Additionally, some respondents in village 2 also explained that these unpaved roads provided better access to local markets to sell their products. This was previously not possible due to inferior rural connectivity. Better access to schools was yet another valued functioning of the program's infrastructure development. Another addition to the capability set was the ability of the participants to create more sources of incomes, through the creation of assets under the Act. Village number 3, for example, valued this ability to create additional avenues of income. Respondents from village number 2, for example, valued the ability to irrigate their farms with the help rainwater catchment areas created under the Act.

Asset creation also had a significant impact on women. When asked whether or not their lives had improved because of the creation of these assets, the majority responded positively to the creation of catchment areas. Most women highly valued their ability to access water easily for their household chores. This was particularly important for the women, because many of them had to spend a considerable amount of time getting water for household chores in the days prior to the creation of the assets. Their ability to have easy access to water was a valued functioning for them as it enabled them to spend more time with their children and take better care of them.

90 percent of the participants indicated that their capability set had indeed expanded since the implementation of the Act. In terms of the capability approach, participants of the program were given more functionings to choose from to better their lives.

One of the main problems that researchers face when using the capability approach is whether to evaluate expansion of the capability set or the actual functionings achieved. For example, Unterhalter states,

Sometimes it is important to assess functionings rather than capabilities, for example in a situation where schooling has been withdrawn from certain groups, as happened in Afghanistan under the Taliban or in South Africa under apartheid. But assessing functionings, rather than capabilities, can be very misleading, especially when making comparisons between people in different social circumstances. A malnourished woman in Malawi has a different capability set than a self-starved British model (Unterhalter, 2003)

In our case however, we must distinguish between the achieved functioning due to direct creation of jobs and the creation of assets. The reason for this distinction is as follows.

We have already established that there had been an expansion of the capability set of participants as a result of the creation of jobs and assets under the Act. Achieved functionings, however, are relatively more difficult to observe in case of the impact of direct job creation. When respondents were asked since the implementation of the Act, of all the functionings that they now had access to, which ones they actually chose, the answers were varied. For example, most respondents chose to demand for work by applying for job cards and registering themselves under the program. When asked why they did not assert their right to the 100 days of work guaranteed by the Act, despite their expressed desire for it, they cited lack of projects or poor planning by local governing bodies. The implication is that while NREGA has expanded the capability set of the participants, social and political factors have disallowed them from selecting freely from it. In the case of village number 4, for example, participants were unable to assert their choice to work and earn income under the Act because of their political affiliation.

Though the responses in the case of achieved functionings were varied, some commonalities that were observed were participants demanding work, participants choosing to work on projects generated under the Act rather than migrate to close by towns and women making use of the Act to earn additional income.

The functionings achieved through asset creation was more evident in some villages than others. For example, in village number 3, the ability to create additional sources of income from the assets created under the Act was actually achieved. As mentioned earlier, because of the involvement of local self-help groups, kitchen gardens were planted around the pond that was created under the Act. These then generated both additional sources of income and basic consumption goods for their own consumption. Individuals chose to make a common decision with regards to creation of additional sources of income with the help of the assets created under the Act.

In village number 2, participants had started to make irrigation canals from the rainwater catchment areas to irrigate their lands. Realizing their capability to irrigate their farms gave them greater control over their harvests. In the cases of both village 2 and village 3, social influence on individual decision making processes, allowed participants to realize the functionings they valued as a community.

From the primary data collected from these four villages, we can conclude that while there has been a definite expansion in the capability set of the participants in these villages, their achieved functioning varies from village to village due to differences in the implementation of the program, the inefficiency in resource allocation and political differences.

Table 16. Capability approach and NREGA

Input (1)	Conversion factor (2)	Capability Set (3)	Social institutions and influence on decision making (4)	Achieved functioning (5)
Impact of job creation under the Act				
Under utilized labor	A rights based employment generation program	Ability to work	Improper implementation of the Program	Demanding work
	NREGA	Ability to earn a living	Lack of information about the Act	Earning a livelihood
		Ability to get gainful employment close to home		
		Ability to demand for work when unemployed		
		Women		
		Ability to participate in decision making at home		
		Ability to earn additional income for the family		
		Ability to take better care of their families		
Impact of Asset creation under the Act				
Under utilized resources in the rural economy	Asset creation under NREGA	Ability to access health care	Community involvement in decision making	Use of assets to generate more income
labor, land	Unpaved roads, Catchment areas for rain water	Ability to access schools	Integration with other development programs	Use of assets to improve family life
		Ability to access local markets to sell their products		
		Ability to irrigate their farms		
		Ability to use existing assets for further asset creation		
		Women		
		Ability to access water for household chores		
		Ability to spend more time with children		

5. 5. Conclusion

Based on our findings above, we contend that the impact of an employment guarantee act like NREGA should be evaluated on terms broader than traditional evaluative indicators like income and consumption expenditure. It is not that these indicators are unimportant, but income and growth rates show only a partial picture of the actual impact of a program like the NREGA.

Why is it important for us to broaden our understanding of development when evaluating social policies like employment generation programs?

Like other developing countries, India has embarked upon a neoliberal path to achieve high growth rates. As a result, there has been a move towards fiscal austerity and cuts in spending for welfare programs. In such an economic climate, it is easy to lose sight of the impact of an ambitious program like the NREGA. A number of critics have claimed that a program like NREGA is only a drain on government funds and tax payer money. Indicators like number of person days created under the program are often cited as evidence against the program. Though it is true that the average of 30-35 person days is far below the 100 days guaranteed by the Act, nevertheless, there was a significant expansion in the capability set of the individuals interviewed. The expansion of one's capability set or freedom to choose from various functionings is important for the well being of individuals. When the capability approach is employed, individuals become the center of analysis. Sen describes this approach as,

“...this freedom centered understanding of economics and of the process of development is very much an agent-oriented view. With adequate social opportunities, individuals can effectively shape their own destiny and help each other. They need not be

seen primarily as passive recipients of the benefits of cunning development programs. There is indeed a strong rationale for recognizing the positive role of free and sustainable agency” (Sen, 1999)

Yet another reason for using the capability approach to evaluate a program like NREGA is in the design of the Act itself. As discussed earlier, the Act provides for its implementation and monitoring in a variety of ways. For example, there is a great degree of decentralization in the planning process. Determining what projects need to be undertaken at village level and how they should be implemented requires participation at both the agency and individual levels, thus making the Act more democratic and less prone to corruption. Decentralization has made the implementation of the Act a responsibility of the participants as well. The participants have been given the right to not only demand for work, but they also get an opportunity to become active members in the process of development of their own communities. Additionally, the Act’s monitoring system allows for a greater transparency and more efficient allocation. The Act gives its participants greater access to income while also enabling them to use their community ties to stimulate the rural economy via different channels. The Act allows for greater space for debate between participants at village level and encourages grass-roots level democracy.

There is no doubt that there is corruption at some levels of governance and wasted resources. What should be remembered, however, is that the Act itself allows for a great expansion of individual’s capabilities and it is this freedom that will enhance and improve the implementation of this Act.

Employment generation schemes have been part of economic thought for a long time now. Unused labor resources are key to stimulating the process of development in a country like India. Employment generation not only helps alleviate poverty, but also contributes to

the general well-being of a society. Job guarantees give a sense of security to the participants while also expanding their freedom. It allows for the creation of assets crucial to the well being of the rural poor.

Employment generation programs should be looked upon not only as a way for to alleviate poverty, but also as an engine to propel the rural economy of the country in the direction of greater development.

CHAPTER 6

CONCLUSION

The focus on the nature of unemployment in India and the consequent conclusion regarding the importance of employment generation by the government have been discussed in chapters 3 and 4 of the dissertation. The aim of this thesis was to evaluate the impact of an employment generation program like NREGA on long-term development. The aim of this concluding chapter is three fold- why should government focus on employment creation, some issues concerning NREGA and why the impact of NREGA should be evaluated based on broader criteria than indicators such as income generation or work days created.

In chapters 3 and 4 we have discussed the impact of the ‘free market’- a philosophy that India has adopted since the early 1990 on employment generation. Even with high GDP growth rates, it is evident that employment generation has not kept up with current GDP trend. The response to economic crisis of 1990 was an immediate move to a more globalized and liberalized economy. In addition to opening up of the economy, various structural changes also resulted in spending cuts in social programs. Since India’s independence, the policy makers have understood the importance of increasing capital accumulation as a source of growth and development for the country. In keeping with this philosophy, while there was a constant effort to increase industrialization and absorb surplus labor, there was also a parallel effort to support industries, which were labor intensive in nature.

In this chapter, we will examine how markets cannot be depended upon to create some of the basic needs of the population, including generation of employment. In the second section, we will examine some of the criticisms of NREGA. Section 3 in this chapter will be used to discuss some of the limitations and proposed modifications to NREGA. Section 4 in

this chapter will make a case for the use of capability approach to evaluate the impact of NREGA and section 5 will conclude the chapter by discussing the future works that the author plans to carry out.

6.1. Role of Government in Employment Generation

Data in chapter 2 showed us that the growth of the Indian economy has not been accompanied by a corresponding growth in employment generation since the liberalization of the economy. Why is it important for government to intervene and create jobs for the poorest section of the society? Is it not reasonable to assume that markets will eventually result in a situation that will ensure employment for every member of the society?

Since the opening up of the Indian economy, the mainstream belief has been that markets will ensure full employment by utilizing all resources including labor effectively. However, as seen in chapter 2, the data regarding employment does not support this belief. There are various problems with the argument that free markets will always be efficient. The assumptions upon which perfectly functioning markets are based are fundamentally flawed. In fact, the theory of perfectly functioning markets, while is concerned with the efficient allocation of resources for production, does not pay any attention to the notion of distribution of any kind.

The transition from planned economy to liberalized economy is accompanied with a number of changes at the political, economic and institutional levels. This transition often requires a reduced role of the state and an increased role of the markets. However, there lies the contradictory nature of the transition. On the one hand state and its expenditure is viewed as inefficient use of precious resources. However, the state is also seen as important institution that is required to create the economic conditions, within which free markets can

operate. This dichotomy about the state's role has two serious implications on the process of development. Firstly, the reduced role of state leads to reduction in state expenditure, which is done via privatization of public sector enterprise, reduction of tax rates to stimulate the private sector and cut in subsidies and social expenditure. This has a direct impact on various public security nets and social spending, which are necessary for the marginalized section of the society. Secondly, the role of the government is reduced to that of an overseer of a set of unrealistic conditions that are required for a fully functioning free market. The second implication needs further consideration. The state is now made responsible for a set of conditions that are nearly impossible to achieve. This makes any failure in the functioning of the markets a responsibility of the state. Due to the unattainable conditions for free markets, any failure in achieving efficiency is not seen as a failure of the markets, but rather as a failure of the state.

In this period of increased liberalization the responsibility of the maintaining high levels of employment has been passed to the markets. Since there are no definite time horizons within which the market ensures full employment, the inability of the state to create optimum conditions for the markets to function is considered as the real cause of the problem.

According to Bhaduri, in a free market driven environment, wages are viewed as a major part of costs for private employers only and not as a source of spending in the economy. As a result, the focus is on reducing costs by restraining wages, downsizing of the labor force, easier hiring and firing policies, changes in labor laws in favour of the employers etc. (Bhaduri, 2005). Commenting on the various measures that are taken to ensure lower costs of production by the employers, Bhaduri observes, "The various measures that are undertaken...are like designing a more and more efficient privately owned boat without

enough water or demand in the public river for it to float” (Bhaduri, 2005). The role of markets in ensuring full employment is therefore not a dependable strategy.

The International Forum for Development (IFD), which was held in New York in 2004 focussed on the impact of the neo liberal policies on the developing countries and came up with some important conclusions regarding policy prescriptions. The first three conclusions were directly related to employment issues in developing countries. These conclusions were:

- i) Employment must be placed at the center of policy discussion and not be viewed as residue outcome of economic growth or economic policies
- ii) The only sustainable solution for poverty eradication is employment creation.
- iii) The gender dimension of employment are also critical empowerment of women plays an important role in the process of egalitarian development (Nayyar and Chang, 2004)

From the discussion above, we can conclude that employment-centric development strategy is crucial to the welfare of the large section of population in developing countries who have been left out of the mainstream development process. This section is usually the most marginalized sections of the society who are unable to take advantage of the growth process. In the case of India, rural sections of the country have been the most marginalized economically and socially.

Inequality in India between urban and rural sections of the country has increased drastically. One of the many indicators for this trend can be seen by observing the Average Monthly Per Capita expenditure from 1993 to 2005 in table 17 below

Table 17. Average Monthly Per Capita (MPCE) in rural and urban sectors (in Rs)³⁶

	50th Round	54th Round	55th Round	56th Round	57th Round	58th Round	59th Round	60th Round	61st Round
Rural	281	382	486	495	498	531	554	617	559
Urban	458	684	855	915	933	1012	1022	1150	1052

Source: Mondol, 2007.

It can be seen from the table above that the gap in the average monthly per capita expenditure between rural and urban India has increased significantly between the 50th round of survey, which was conducted in 1993-94 and the 61st round, which was conducted in 2004.

In a situation where disparity between the rural and urban sectors are ever increasing, it is necessary for the government to step in to provide support systems, which would help the most marginalized sections of the society to come out of poverty.

One such step is to provide employment opportunities to people who have been left out of the market based economic system. NREGA is one of the many such steps that the government can take to improve the conditions of least privileged sections of the society.

There have been many other employment generation schemes that the central and many state governments have initiated over the years. Some of these programs are:

Sampoorna Grameen Rozgar Yojna (SGRY) that was started in 2001 to provide additional wage employment in the rural areas and has both cash and grain components to it.

Swarnjayanti Gram Swarozgar Yojna (SGSY) was launched in 1999 and was initiated to facilitate self employment opportunities to rural poor by providing income generating assets, access to credit, etc.

³⁶ 50th round-July 1993 to June 1994, 54th round- January to June 1994, 55th round-July 1999 to June 2000, 56th round- July 2000 to June 2001, 57th round-July 2001 to June 2002, 58th round- July to December 2002, 59th round-January to December 2003, 60th round- January to June 2004, 61st round-July 2004 to December 2005.

National Food for Work Program (NFFWP) was started in 2004 in 150 districts, which were considered to be the most backward in the country. This program was started to generate additional wage employment with food security (Economic Survey, 2005).

According to Chandrashekhar and Ghosh NREGA is fundamentally different from all other programs as the earlier programs were inherently paternalistic in nature (Chandrashekhar and Ghosh, 2008). NREGA as mentioned earlier in chapters 1 and 5 is a rights based and demand based act. Due to the provision that participants have a right to demand work from the government making this program more inclusive in nature.

One of the key advantages that NREGA has over its predecessors is that it is able to use the democratic set up of the country to give an economic voice to its participants. Since independence India has been proud of its vibrant democracy. In this country each citizen was given a political right by universal suffrage. Unfortunately, political rights did not ensure economic rights for a large section of the population. According to Bhaduri (2005), while a democratic system is often times viewed as a handicap to economic growth, this very weakness can be turned into a strength to ensure economic development. According to him, “The slow pace of our democratic decision making process is capable of being turned into a stable and viable participatory process to include the marginalized and the poor into many decisions that directly affect them” (Bhaduri, 2005). NREGA is one such program where grass root level participation is not only encouraged but is essential for the success of the program. Direct participation is ensured via the process of decision making when work is demanded. The provision of monitoring under the program also ensures that participants are made aware of their rights under the Act.

One obviously can not argue that NREGA is the silver bullet that will radically change the structure of India's rural sector. There are many problems that are associated with a program of this magnitude. These problems and criticisms will be discussed in the following section.

6.2 Some Issues Regarding NREGA

NREGA as mentioned earlier is a rights based program. The government is legally obligated to provide employment opportunity to anyone who demands work. NREGA has its fair share of critics. There are many critics who believe that the implementation of NREGA was simply a populist measure by the ruling government and the program will not have any serious impact on the welfare of the rural sectors. There are others who believe that government funds will be wasted due to corruption at the village and district levels. And lastly, there is always a worry that financing an employment generation program that is as ambitious as NREGA will result in huge government deficits. This section will address the some of the concerns regarding NREGA.

Financing of NREGA

Financing of any program that is under the purview of the government has been controversial. The pressure to maintain low government deficits is one of the main constraints on government's spending. However, this constraint is an artificial construct. Bhaduri explains that 'the government cannot do it and it has no money' argument is an invalid one. He argues that the funding of an employment generation program has to be analysed in two steps; i) whether the real economy has the capacity to support this kind of program and ii) the method of financing such a program (Bhaduri, 2005). Bhaduri explains, " If the domestic economy is capable of providing most of the goods and services for

sustaining the programme over the short and long run, a method of financing it can be found” (Bhaduri, 2005).

Wray explains most modern economies have abandoned a gold standard and adopted a fiat money standard in which the ‘liabilities of the government serve as the ultimate money’. As a result, the government can create money at will to finance employment generation programs as long as people are willing to offer goods and services in return for government’s money. Wray explains, “The government can offer to hire all unemployed workers at any price it chooses, allowing the government deficit to float as high as necessary to ensure unemployment is eliminated” (Wray, 1998).

In the case of India, the government can always fund a program by creating liabilities with the Reserve Bank of India (RBI). When the government borrows from RBI, the liability of the government becomes an asset for the RBI. This creates its own liabilities to the public in the form of currency notes (Bhaduri, 2005). Therefore, the government can borrow domestically to finance development programs without the fear of defaulting on its domestic debt. However, if the government is forced to maintain low fiscal deficits via some external force, then financing any program by the government can become problematic. In India’s case, the Fiscal Responsibility and Budget Management Act (FRBM) was enacted to reduce the fiscal deficit of to 3 per cent of the GDP by 2008. The Act itself is viewed by many as a measure to adhere to the demands of the IMF. Due to this act, the government’s ability to provide full employment is severely restricted.

Bhaduri suggests that the existing laws need to be amended, which would allow the government to borrow from RBI. He explains that borrowing from RBI by the government

should be put in a separate account that will be directly used by the Panchayat or village level governing agencies to create jobs (Bhaduri, 2005).

In addition to the fact that there are no restrictions on the government to spend on creating full employment financially, in the specific case of NREGA, spending by the government on this particular program has been accompanied by reduction in spending on other social programs.

Chakraborty argues that there are no huge fiscal strains on the government when it comes to funding NREGA. He explains that spending on rural employment, under which the funding for NREGA falls is a very small percentage of the total spending and constitutes a very small percentage of the GDP. He shows expenditure on rural employment was 0.24 per cent of GDP in 1996-97, which declined to 0.13 per cent of GDP in 2001-02. This was increased to 0.33 per cent by 2006-07. If we look at NREGA's share in the total expenditure on various other rural employment programs, we observe NREGA's share has increased consistently. Chakraborty argues that this increase has been balanced by decrease in the spending on programs like Swaranjayanti Gram Swarozgar Yogna, National food for Work program, etc. (Chakraborty, 2007). Therefore, expenditure on NREGA not only forms less than 1 per cent of the GDP, but the consolidation of other public employment programs into NREGA has kept the total allocation of funds by the central government at similar levels when compared to the pre-NREGA stage.

Higher rural wages and food inflation

Some critics have argued that the wage rates that have been set under NREGA have increased the rural wage rates. This has lead many critics to argue that higher wages have increased cost of production and hence will result in inflationary tendencies for basic

commodities including food. Also, guaranteed wages by the government leads to greater bargaining position of the rural workers, which makes it difficult for rural employers to hire workers.

The critique that NREGA wages have lead to higher rural wages and therefore has contributed to higher cost of cultivation in the rural sector, which has lead to higher food inflation, is highly flawed. It is true that food inflation has been high over the last few years. But the reasons for this rise in price of food are varied and ‘higher rural wages’ cannot be held solely responsible for this trend. There have been many reasons due to which food inflation has been high in the recent past.

One such reason for increase in food prices has been the general decrease in agricultural production due to a fall in net sown area. The Approach Paper to the 12th five-year plan estimates the decline in the new sown area in the last decade to be around 2 million hectares. Goswami explains that this diversion of land from agriculture to non-cultivation uses are due to increase in demand for land for purposes such as residential complexes, commercial or industrial uses, etc. He further observes that often times land is unusable for any cultivation due to an increase in urban sprawl.

Another reason that the role of higher rural wages has been largely overplayed is due to the fact that wage payments typically account for about 30- 35 per cent of total agricultural costs (Ghosh, 2011b). Ghosh for example points out that the cost of diesel, which forms an important input in agricultural production, has increased by more than 70 per cent since 2004-05. It is therefore fallacious to make the argument that higher rural wages have resulted in higher food prices.

Some have also argued that the financialisation of commodities have had an impact on food prices in the world. According to Dr. Duvvuri Subbarao, governor of RBI in his presidential address pointed out that speculation in the commodity futures has been a key driver of global food inflation. This view is supported by publications from many other organizations³⁷. Ghosh further explains this dramatic rise in world food prices in 2007-08 was largely due to speculative activity in the global commodity markets, which was enabled by financial deregulation measures. This rise in food prices has resulted in high food inflation in developing countries like India as well.

There are other reasons which have resulted in high food inflation like the declining role of the government in determination of minimum support prices, the entry of multinational companies in the food economy and increase in input costs for cultivation including greater difficulty in accessing cheap credit. Given these reasons, one cannot make a simplistic argument relating guaranteed NREGA wages and high food prices.

In fact high food prices are precisely the reason for guaranteed wages for the poorest section of the society. The real wages of the marginalized section of the society is affected adversely when inflation is high. Therefore, NREGA wages should be implemented more rigorously so as to protect the interests of such groups.

Another criticism of NREGA has been that higher NREGA wages have resulted in a better bargaining position of the rural poor. If this is indeed a fact, then this should be looked at as a success of this program and not a criticism. One of the reasons for the agricultural backwardness in developing countries according to Kalecki was the economic and social marginalization of small cultivators in the rural economy. According to Kalecki, institutional

³⁷ See UNCTAD (2009), UN special Rapporteur (2010).

changes in rural sectors of the developing countries are key drivers of economic development. If NREGA has indeed been able to organize and strengthen the bargaining position of rural workers, then this should be viewed as a positive institutional change, which is necessary for the development of the rural segments of the country.

Corruption and implementation failure

There have been many criticisms regarding massive corruption at the village and district level. Most of these criticism is based on an audit report released by the Comptroller and Auditor General (CAG) of India in 2008 that reported that financial irregularities in allocation of NREGA funds. The report also found that many states were not complying with many stipulations under the Act. The report also indicated that the average number of workdays provided under the Act was only 33 days as opposed to the guaranteed 100 days that were guaranteed (CAG audit report, 2008).

These findings were used by the critics to suggest that the program is a failure and should not be discontinued. These criticisms though necessary for the proper implementation of the program have been overplayed by many.

When we take a closer look at these criticisms, we observe that many of them are unwarranted. For example, the audit states that the average work days created under the Act was only 33 days. From our surveys that were conducted last year in the states of Haryana and West Bengal, the participants revealed that many times there is not enough work that can be undertaken given the nature of works that has been approved under this Act. Therefore, the number of workdays created falls below the stipulated 100 days of work.

If we look at the data available from the NREGA website, we observe some encouraging results in terms of households who are issued job cards and the number of households demanding jobs.

Table 18. Households covered under NREGA

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
No. of households issued job cards	37850390	64740595	100145950	112550610	119824438	122750202
No. of households who have demanded work	21188894	34326563	45518907	52864608	55763244	50348382
No. of households provided employment	21016099	33909132	45115358	52530453	54954225	49862775

Source: www.nrega.nic.in

If we look at the table above we see the number of households that have been issued job cards have increased from around 64 million in 2007-2008 to 122 million in 2011-2012. This indicates that there has been a consistent increase in the coverage of this program. The number of households who have been provided with jobs as a percentage of households who have been issued job cards has been very low. For example, in 2006-2007 around 55 per cent of the households issued job cards were provided with employment. This percentage fell to 46 percent in 2010-2011. This is one of the many concerns that need to be addressed to ensure a more effective implementation of the program.

Table 19. Work undertaken under NREGA

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Works on going	444806	961280	1560485	2357480	2496763	5912109
Works completed	396782	820168	1214139	2259343	2585824	1501064
Total works	841588	1781448	2774624	4616823	5082587	7413173

Source: www.nrega.nic.in

Table 19 indicates the total number of works that have been undertaken and completed under NREGA. The total number of works completed has more than doubled between 2006-07. This however can be attributed to the second phase of the program when an additional 130 districts were included in the program. Since then the total number of

works completed has increased consistently except for the year 2011-2012. Given that most programs that are undertaken by the government are usually characterized by bureaucratic hurdles and incomplete project, the trend shown in table 20 is certainly encouraging.

There is no doubt that there exists field level corruption and inefficient implementation. Steps should be taken to ensure that the various provisions under the Act like social audits, better planning of works and grievances redressal are used effectively.

6.3. Limitations and Modifications.

While NREGA is one of the most ambitious programs that have been launched by the government of India, to combat unemployment, the program has much scope for improvement. Some of the key areas where NREGA can be improved will be discussed in this section.

Extending guaranteed work days in one financial year

One of the main concerns that were voiced during the field surveys undertaken by this study was the low number of guaranteed work days under this Act. Many participants indicated that more number of work days should be guaranteed during the course of a financial year. Many state governments have urged the Central government to double the guaranteed employment days under the Act. The central government recently raised the guaranteed work days from 100 days to 150 days in many drought hit states. Increasing the number of guaranteed work days would give many households that are below the poverty line an opportunity to earn additional income in the absence of any other employment opportunities.

Expanding the approved works under the program

This was yet another concern that was observed during the field surveys. Many of the participants indicated that the approved list of works that could be undertaken under this Act was severely limited. At this time the works that can be undertaken are in the areas of drought proofing, water conservation, irrigation canals and rural connectivity. In the villages that were surveyed, it was observed that the period during which NREGA was implemented, the number of dirt roads and rainwater catchment areas built under the program were more than sufficient to meet the needs of the local communities. It was suggested by number of participants that more works should be added under the program. This would not only provide jobs, but also help build better infrastructural facilities in the rural parts of the country. Other works that can be included under the program are building of social infrastructure like schools, medical centres, women's vocational training centres; environmentally sustainable projects like water and soil conservation, organic farming, etc. Addition of such works would allow participants to be educated about a more sustainable method of development.

Creating jobs to improve skill sets

This is yet another area in which NREGA can be improved upon. While the jobs that are guaranteed under the program are jobs that are unskilled in nature, the structure of NREGA can be utilised to create jobs that allow for skill creation in the rural parts of the countries. Jobs under NREGA can be created in a manner where participants are taught basic skills that would be useful to NREGA participants during off seasons. NREGA can also be utilised to teach basic computer skills to high school students by creating jobs for college graduates.

6.4. Why the Capability Approach?

The criticisms that have been levied upon the program are to some degree justified, especially the ones regarding the inefficient implementation of the program. However, when it comes to impact evaluation of the program, the parameters are rather narrow. Some of the common parameters are number of work days created, number of completed works, direct impact on consumption expenditure. These parameters are not sufficient to measure the success or failure of a program that aims to make employment a right under the law.

As discussed in the previous chapters, issues relating to employment and unemployment in a country like India are multi dimensional in nature. This is particularly true in the rural areas. Access to income generating employment is directly related to one's access to resources including land, access to physical infrastructure like roads, water sources, class and caste relations, gender etc.

In chapter 4 we examined the idea of disguised unemployment and underemployment. In both cases, lack of any social security net compels people to work below their productive capacity. This also results in lower income for the worker, which translates into fewer economic rights and social rights.

The main aim therefore of any government funded employment generation program should be to contribute to the overall development of the marginalized section of the society.

The causes of unemployment are varied in India. Surplus labor, increased use of labor saving technology, stagnation in employment generating sectors like agriculture and industry, uneven distribution of investment are the factors that have caused unemployment and under employment at a macro level. These problems of course have to be solved via macro economic policies by the government.

No one is arguing that economic growth is not a necessary condition for overall economic development. In this pursuit of economic growth, the process of development is being put on hold for many of the marginalized sections of the society. Increasing dispossession of land, more flexible labor market policies, intense pressure on cost cutting to make profits are some of the many impacts of the free market approach that has been followed by the government of India. In addition, greater dispossession of land and other productive resources, displacement of labor to extract natural resources for the purpose of profits, exploitation of the existing cultural and social evils to control labor, etc, have also been observed in the recent past that can be attributed to the opening up of the economy to a certain extent. Therefore, both the causes and the impact of unemployment are not simply economic in nature. If that is indeed the case, then the evaluation of an employment generation program should also not be based on some narrow parameters like the income, number of work days created, etc.

In this case, the capability approach comes as a new and a more effective way to evaluate the impact of such programs. As discussed in chapter 1, Sen explains that the impact of unemployment is not only economic in nature. Unemployment leads to social exclusion, lack of access to some of the basic necessities, uneven distribution of power and wealth etc. Rampant unemployment and underemployment also has a negative effect on class and gender relations in a society.

Therefore, in order to evaluate the impact of a program like NREGA, one has to examine both the direct and the indirect impact of the program. While the direct impact is often easy to observe and sometimes discouraging, the indirect impact has far reaching consequences for the rural economy.

In case of NREGA, the creation of productive assets has resulted in greater income generating opportunities in many communities. These productive assets like unpaved roads and water catchment areas have a significant impact on the quality of life of the rural population. Capability approach allows for a greater understanding of such impact by observing the expansion of capability set of the targeted people. The capability approach is able to evaluate the impact of program a multi-dimensional perspective.

Effective implementation of NREGA will allow for a greater expansion of its participants capability set or increase the both social and economic choices of the participants.

For example, some argue, that the work that is undertaken under NREGA can hardly qualify as ‘decent work’ as the work is still labor intensive and low productivity work. And therefore, one cannot link NREGA to overall development of the workers. The fact is that NREGA guarantees employment to low skilled workers, however the provisions under the Act also allows participants to actively get involved in the decision making process of the program. In the survey conducted by us, in three of the four villages, women played an important role in deciding what kind of assets were to be produced under the Act. Processes such as these help the participants to develop crucial skills like organizational skills, skills to deal with government bureaucracy, gaining knowledge about the fundamental rights under this Act, etc. The works undertaken under NREGA might be low skill jobs, but the associated activities play an important role in skill creation, thereby making many more options available to the participants.

NREGA is certainly not the only solution to the problems of the India’s rural country side, but it certainly can act as a catalyst to improve the conditions of this segment of the country.

6.5 Future Works

Impact evaluation of NREGA has been a key focus for many development economics enthusiasts since the implementation of the program.

It would be helpful to use the capability approach to evaluate the impact of the program at a more extensive level by surveying more villages in other states of the country. These studies would also be particularly helpful if the studies could be conducted over longer periods. This would help to observe the impact of asset creation in the long run. It would also allow us to examine the usage of these assets for the purpose of agriculture, health care, access to education, etc. Another important aspect that also should be studied is the impact on class relations due to the creation of productive assets. As discussed earlier, lack of access to productive assets is one of the main hindrances to the economic development of the rural poor. It would be valuable to examine whether these community assets have any impact on the social and political structure of the rural country side.

The author also believes that the future surveys could be constructed in a manner by which the participants also become active part of the evaluation process. In chapter 5, our interaction with the participants allowed us to construct the capability sets that they believed were important to them. Interaction with the participants allows for a deeper understanding of the list of functionings that are important for them. Sen himself advocates for space for public discussions and debates to identify the capability set that is important for the community under study. This would process would help to evaluate not only the impact of NREGA, but other schemes and programs that come under government purview.

NREGA can be integrated with existing social programs gradually. Lastly, it would also be helpful to study the integration of NREGA with other development schemes over a period of time and this might prove to be useful from a budgetary aspect in the long run.

NREGA has a lot of potential in generating employment both directly and indirectly for the rural poor if implemented sincerely and efficiently.

APPENDIX

A. QUESTIONNAIRE

Date: _____

PART I (General Information about Participant's Occupation)

A. Agricultural workers

Q. 1. What type of agricultural activity are you engaged in?
[1 = Crop Farming; 2 = Livestock; 3 = Crop Farming and Livestock; 4 = All the Above]

/ _____ /

Q. 2. What is the nature of the your business enterprise?
[1 = Small – Holder; 2 = Mid – Sized; 3 = Large]

/ _____ /

Q. 3. Do you employ others to work in the enterprise?
[1 = Yes; 2 = No]

/ _____ /

a. If YES how many people are employed?

/ _____ /

b. Is it difficult to hire workers?
[1 = Yes; 2 = No; 3 = Sometimes (Please Explain)]

/ _____ /

Q. 4. How are workers in the enterprise paid?
[1 = Wages; 2 = Share of the Output; 3 = Wages and Share of the Output]

/ _____ /

a. If wages are paid, what is the typical wage for a worker per day?
Rs/day

Q. 5. Have you worked for any other farmer in the last agricultural year? [1=Yes, 2= No]

/ _____ /

a. If yes, what were the wages paid to the participant?
Rs./day

B. Non Agricultural workers

Q. 1. Are you self employed?

[1=Yes, 2= No]

/ _____ /

a. If yes, what type of economic activity are you involved in?

Q. 2. Have you gone to a nearby city for work in the last agricultural year?

[1= Yes, 2= No]

/ _____ /

a. If yes, for how many days have you worked away from home?

Part II (General Awareness of the Scheme)

Q.1. Are you aware of the NREGA?

[1=Yes, 2= No] *If the answer is no, the interview will be terminated.*

/ _____ /

Q.2. If yes, have you applied for a job card?

[1=Yes, 2=No]

/ _____ /

Q. 3. Have you been issued a job card?

[1=Yes, 2=No]

/ _____ /

Q.4. How long did it take for the card to be issued?

Q.5. How long did it take for you to get work under the scheme?

Q.6. How far was the work site from your house?

Part III (Information about the participant's involvement in NREGA)

Q.1 Before working for NREGA what was your main means of income?

Q.2. How long did it take for you to start earning money through NREGA-were wages paid on time?

Q.3 What was the nature of your work in the NREGA project.

Q.4. What was the average number of workers in your NREGA project?

Q.5. On average how many hours of work did you have to put in a week and how many days a week did you work?

Q.6. Please could you give me an idea of your income before and after joining scheme?

Q.7. How long do you plan to work under the scheme? Do you have any other plans in mind?

Part IV. (Impact of the scheme on the worker)

Q.1. Has your consumption changed since you participated in the scheme?

[1=Yes, 2=No]

/ _____ /

a. If yes, how much do you spend on food items now compared to before working under the scheme?

Rs./week

Q. 2. Have you looked for jobs outside of your villages since you started working under the scheme?

[1=Yes, 2=No]

/ _____ /

Q. 3. Any member of your family has stopped migrating since the starting of the scheme?

[1=Yes, 2=No]

/ _____ /

Q. 4. Has your household debt decreased since you have joined the scheme?

[1=Yes, 2=No]

/ _____ /

Q. 5. What is the quality of work under the scheme?

[1= Very good, 2= Good, 3= Satisfactory, 4= Below Satisfactory]

/ _____ /

Q. 6. Has your bargaining power increased since you have joined the scheme?

[1= Yes, 2= No]

/ _____ /

Q. 7. Does the scheme provide you with a degree of certainty in terms of work?

[1=Yes, 2=No]

/ _____ /

Part IV. (Impact of the scheme on the areas under implementation)

Q. 1. What are physical assets that have been created under the scheme in your area?

Q. 2. Has it created any impact on soil conservation?

[1=Yes, 2=No]

/ _____ /

Q. 3. Has it created any impact on water conservation?

[1=Yes, 2= No]

/ _____ /

Q. 4. Has any work on afforestation been carried under the scheme?

[1=Yes, 2=No]

/ _____ /

Q. 5. Do you think the scheme has had any effect on agricultural productivity?

[1=Marginal, 2= Significant, 3= None]

/ _____ /

Q. 6. Do you think implementation of this scheme has created impact in terms of overall development of the village?

[1=Yes, 2=No, 3= No idea]

/ _____ /

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