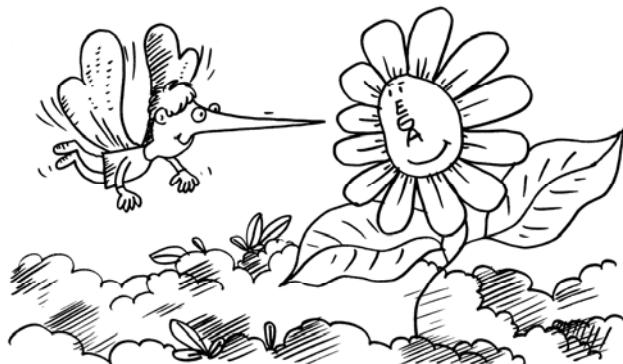


Employment as a social responsibility

Jean Drèze

An Employment Guarantee Act places an enforceable obligation on the state and gives bargaining power to the labours. It creates accountability.

The draft National Rural Employment Guarantee Act has recently entered national policy debates like a wet dog at a glamorous party. The demand for an Employment Guarantee Act is not new, but a series of unlikely events has catapulted it from obscurity to the top of the political agenda.



The proposed Act gives a legal guarantee of employment in rural areas to anyone who is willing to do casual manual labour at the statutory minimum wage. Any adult who applies for work under the Act is entitled to being employed on public works within 15 days. Failing that, an

Employment as a social responsibility, Jean Dreze, *The Hindu*, Nov 22, 2004 ,<http://www.hindu.com/2004/11/22/stories/2004112205071000.htm>
[C.ELDOC.1076354]

unemployment allowance has to be paid. In the draft Act prepared by the National Advisory Council, guaranteed



The need for an Act has been questioned. Why is it not enough to initiate massive employment schemes? The main answer is that an Act places an enforceable obligation on the state, and gives bargaining power to the labourers. It creates accountability. By contrast, a scheme leaves labourers at the mercy of government officials.

There is another major difference between a scheme and an Act. Schemes come and go, but laws are more durable. A scheme can be trimmed or even cancelled by a bureaucrat, whereas changing a law requires an amendment in Parliament. If an Employment Guarantee Act (EGA) is passed, labourers will have durable legal entitlements. Over time, they are likely to become

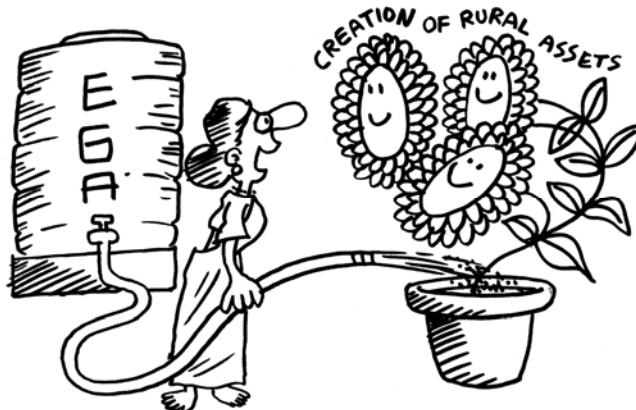


aware of their rights and learn how to defend them.

Opposition to an EGA often arises from a failure to appreciate its far-reaching economic, social and political significance. To start with, an EGA would go a long way towards protecting rural households from poverty and hunger. In fact, a full-fledged EGA would enable most poor households in rural India to cross the poverty line.

Secondly, it would lead to a dramatic reduction of rural-urban migration: if work is available in the village, many rural families will stop heading for the cities during the slack season.

Thirdly, guaranteed employment would be a major source of empowerment for women. A large proportion of labourers employed under an EGA are likely to be women, and guaranteed employment will give them some economic independence. Fourthly, an EGA is an opportunity to create useful assets in rural areas. In particular, there is a massive potential for labour-intensive public works in the field of environmental protection: watershed development, land regeneration, prevention of soil erosion, restoration of tanks, protection of forests, and related



activities.

Fifthly, guaranteed employment is likely to change power equations in the rural society, and to foster a more equitable social order. Finally, an EGA is a unique opportunity to activate and empower the panchayati raj institutions, including gram panchayats and gram sabhas. It will give them a new purpose, backed with substantial financial resources.

Having said this, an EGA would not come cheap. Even those who are otherwise sympathetic to the idea often wonder whether it is affordable. It is interesting that similar concerns have seldom



been raised with respect to the "interlinking of rivers" project. The cost of this project is far greater, and its benefits (if any) far more speculative, than those of an EGA.

Yet the project easily mustered support from some of the country's most prestigious institutions and personalities, based on the flimsiest possible arguments. It would be surprising if this had nothing to do with the fact that the interlinking project is a potential bonanza for the corporate sector.

Be that as it may, the economic viability of employment guarantee needs to be examined in its own terms, and not by comparison with extravagant projects.

In the note on this issue prepared by the National Advisory Council, the cost of employment guarantee is anticipated to rise from 0.5 per cent of GDP in 2005-06 to 1 per cent of GDP in 2008-09. This is based on the assumption that the scheme is gradually extended to the whole of India within four years, starting with the 150 poorest districts.

The anticipated cost of 1 per cent of GDP is a financial cost. It is arguable that the "real" cost would be much lower. For instance, the financial cost of employing a labourer on public works is the statutory minimum wage, but the economic cost (the real resources foregone) may not be so high, if the labourer is otherwise unemployed. However, even if the real cost of employment guarantee is as high as 1 per cent of GDP, there is no cause for panic.

The challenge of financing employment guarantee has to be seen in the light of the fact that India's tax-GDP is very low in international perspective: about 15 per cent (for the Centre and the States combined) compared with, say, 37 per cent in OECD countries. Further, India's tax-GDP ratio has declined in recent years. For instance, the ratio of Central taxes to GDP was only 9.3 per cent in 2003-04, compared with 10.6 per cent in 1987-8. These are some indications, among others, that there is much scope for raising India's tax-GDP ratio to finance employment guarantee and related social programmes.

On the nuts and bolts of enhancing tax revenue, there are useful hints in the recent *'Kelkar 2'* report submitted to the Ministry of Finance. Some aspects of this report are questionable, including its fixation with uniform taxes and its touching faith in the scope for raising revenue by lowering tax rates.

Nevertheless, the report also suggests many sensible ways of raising the tax-GDP ratio, such as introducing value-added taxes, extending taxation to most services, using information technology to broaden the tax net, eliminating arbitrary exemptions, and (last

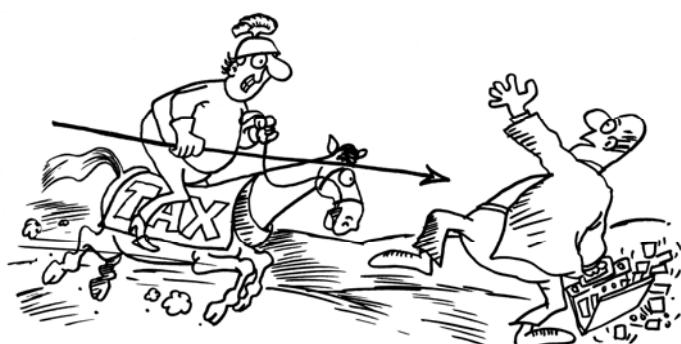
but not least) fighting tax evasion. If these opportunities are well utilised, Plan expenditure can be raised by much more than one per cent of India's GDP.

Further, there is no need to stop at "*Kelkar 2*". Many other financing options can be considered. For instance, a recent World Bank study estimates that lifting the anachronistic cap on the Professions Tax would enable State Governments to collect additional tax revenue to the tune of 0.9 per cent of GDP.

Similarly, much revenue could be generated from "green taxes" on environmentally harmful consumption, or more generally, on anti-social activities. There is also much scope for pruning unnecessary public expenditure, starting with military expenditure and subsidies for the rich – there are many. In short, the fundamental ability of the Indian economy to sustain employment guarantee is not in doubt. What is required is imagination and commitment in tapping that potential.

Some of these proposals are likely to be opposed by those who stand to gain from the *status quo*, as happened with the introduction of VAT as well as with the "capital transactions" tax. One way around it is to link tax reforms more clearly with positive initiatives such as the EGA. Instead of piecemeal reforms, often derailed by vested interests, the need of the hour is for a comprehensive "new deal", involving a higher tax-GDP ratio but also better use of tax revenue. A package of this kind has a greater chance of success than piecemeal reform.

"Tax the rich" would be a useful guiding principle for this package. During the last 20 years or so, the so-called "middle class" (read the top five per cent of the income scale) has become rich beyond its wildest dreams. It has literally transplanted itself to the first world without even applying for a



visa. The time to share is long overdue.

The onset of cold weather in the capital is a good time to ponder over these matters. This year again thousands of people are going to die in agony because they do not possess as much as a blanket to cover their emaciated bodies at night. The slaughter will be attributed to a "cold wave" but the real issue is the dreadful poverty in which people have been allowed to live decade after decade.

This is not just a tragedy for the victims, but also a deep scar on the national fabric. It affects everything – from the self-respect of the nation to the quality of democracy.

To put it differently, there are two ways of thinking about the proposed EGA. One is to see it as a pitched battle between the working class and the privileged classes. Another is to regard it as a national endeavour – a visionary initiative in which most citizens have a stake in one way or another. There is some truth in both perceptions, but so far the first one has dominated public debates. Better recognition of the wide-ranging social benefits of an EGA is likely to put the issue in a different light.