

CHAPTER 6

CONCLUSIONS AND POLICY IMPLICATIONS

In this concluding chapter we first present the main conclusions of the study, followed by the policy implications and finally a note on the limitations of the study and direction of future research.

6.1 Conclusions

Public wage employment programs designed to provide employment in times of distress have a long history in India. MGNREGA was launched in February 2006, after the National Rural Employment Guarantee Act was passed in 2005, in the 200 most backward districts of India. The program guarantees 100 days of employment at a stipulated wage rate in rural areas. A static multi sectoral CGE model is used to estimate the economy wide effects of the program. Broadly, four types of effects could be associated with the program – effects on macro variables, spillover effects, direct and indirect effects on income, and effects on nutritional outcomes.

Effects on macro variables - the study clearly reveals that the program has significant **macro level impacts** in terms of growth, welfare and employment generation. The program has the potential to enhance growth, reduce inequality by increasing the income of poor rural households relative to other households, and generate employment in both rural and urban areas. However, the short and long run effects of the program differ considerably. In the short run, one rupee invested in the program increases national income by 0.80 rupee and household consumption by 1.02 rupee, while in the long run it results in increase in national

income by 1.07 rupee and in increase in household consumption by 1.16 rupee. Therefore, the relevance of the program to the economy should be viewed from a long run perspective.

Spillover effects - the analysis shows that the program has **spillover effects** as the program affects both the rural and urban population. Both the rural and urban population are benefitted by the program, although most of the benefits accrue to the rural population. Further, income redistribution by means of higher taxes (direct taxes) significantly lowers the positive impacts of the program. Since most of the direct taxes are paid by urban households, higher tax rates effectively leads to lower consumption by these households which in turn adversely affect the other macro variables. The benefits to rural households are also significantly reduced if the program is financed through the urban tax payers' money. Thus, the ideal method of financing the program should be through generation of more resources through higher growth or through higher tax collection, rather than through higher tax rates.

Direct and indirect effects on income - the program affects both the rural and urban labour markets by making rural labour relatively more expensive. In other words the program increases rural wages relative to urban wages. Poor rural households benefit the most because of participation in the program (**direct benefit**) as well as due to relatively higher wages (**indirect benefit**) due to the labour market impact. By making rural labour relatively more expensive the program stimulates demand for urban labour. Therefore, the program could lead to migration of labour from urban to rural areas and/or reduce the migration of labour from rural to urban areas. Thus, the program could potentially reduce the stress on the resources of urban areas.

Effects on nutritional outcomes - the program leads to higher food demand implying that the program could lead to better **nutritional outcomes** for the population. Food prices also increase due to the program, and therefore the program could create inflationary pressures in the economy. Therefore, the implementation of the program should be simultaneously accompanied by the easing of supply side constraints in the agriculture sector.

6.2 Policy implications

MGNREGA is an effective tool to promote both efficiency and equity objectives. Higher growth is required to generate resources to finance the program as redistribution by means of higher tax rates could significantly reduce the benefits of the program. The program should be viewed not only in terms of providing short term relief to the poor, but in terms of promoting long term economic growth. The program should be a means to improve agricultural productivity because the program is likely to increase the demand for food in the face of deteriorating agricultural productivity growth. If agricultural supply constraints are not eased the program might lead to inflationary pressures and/or higher dependence on imports. Finally, investments in MGNREGA could lead to equivalent or higher welfare gains relative to alternative investments in the economy. In short, MGNREGA has the potential to transform India provided the country is able to generate enough resources to finance the program and there is increase in agricultural productivity to meet the higher demand for food. Sustaining high levels of growth is a challenge for India and so is increasing agricultural productivity, and therefore the objective should be efficient implementation of the program. Modern technology could play a key role in reducing leakages and in improving efficiency.

6.3 Limitations of the study and future research

One of the key limitations of the study is that the model developed for this study is a single period model and therefore dynamic effects are not captured in this study. In other words the intertemporal effects of higher government spending are not captured by the model. The model also does not distinguish the regional effects of the program. Since there is considerable difference in the impacts of the program in different states a multiregional model consisting of different states/regions could give better insights into the potential benefits of the program across different states/regions. However, such extensions would require additional data, and these extensions are beyond the scope of the present study. Future research could focus on these aspects.