

**THE ECONOMIC IMPACT OF THE MAHATMA GANDHI  
NATIONAL RURAL EMPLOYMENT GUARANTEE ACT  
(MGNREGA)**

**THESIS SUBMITTED IN FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
DOCTOR OF PHILOSOPHY IN ECONOMICS AT**



**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS**  
*(University U/S 3 of UGC Act, 1956)*

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**2015**

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EMPLOYMENT GUARANTEE ACT (MGNREGA)**

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## DECLARATION BY THE CANDIDATE

I, Joydeep Ghosh, hereby declare that this thesis titled "*The Economic Impact of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)*" is submitted for the award of degree of 'Doctor of Philosophy' to the Gokhale Institute of Politics and Economics, Pune. It is an original contribution and it has been completed during my tenure as a research scholar at Gokhale Institute of Politics and Economics, Pune. This thesis has not been submitted by me elsewhere for the award of any degree or diploma. The information gathered by me from elsewhere for the thesis is original, true and factual. Such material as has been obtained from other sources has been duly acknowledged in the thesis. I hereby request to consider the thesis for the award of the degree of 'Doctor of Philosophy.'

April, 2015

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## **Acknowledgements**

I would like to thank Professor Basanta K Pradhan of the Institute of Economic Growth (IEG), Delhi, for his guidance and support at all stages of my thesis work. I would also like to thank Professor Arup Mitra of IEG, Delhi, for his constructive comments. I express my gratitude to my supervisor, Professor Rajas Parchure of Gokhale Institute of Politics and Economics (GIPE), Pune, for providing direction to my research work and for helping me to complete my thesis. The work would not have been possible without the critical inputs of the faculty and fellow students of GIPE, obtained during my interactions with them. Finally, I would like to thank my family and friends for their encouragement at all stages of the process. This work is dedicated to my beloved mother.

## **Abstract**

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.

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. 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. 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. 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. The program leads to higher food demand implying that the program could lead to better nutritional outcomes for the population. The implementation of the program should be simultaneously accompanied by the easing of supply side constraints in the agriculture sector.

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