

EMPLOYING INDIA: GUARANTEEING JOBS FOR THE RURAL POOR

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India's rural employment guarantee is a milestone in social policy and employment creation. The Mahatma Gandhi National Rural Employment Guarantee Act was mandated in 2005 to implement an ambitious, demand-driven employment-creation program to benefit the rural poor through projects that improve agricultural productivity and alleviate land degradation. Guaranteeing the right of rural households to 100 days of unskilled manual work, the program's size sets a worldwide precedent. It has achieved impressive results, but the act continues to pose immense design and management challenges.

Important Facts

- India faces persistent poverty and inequality despite burgeoning growth. Between 1988 and 2005 the country's GDP almost tripled, but its poverty rate only decreased by 30 percent, underscoring the need for poverty reduction policies.
- Under the program, members of 50 million households worked a total of 2.5 billion days in 2011.
- The act looks to empower women, widen opportunities for marginalized population groups, and reinvigorate community decisionmaking bodies.
- The program is meant to operate transparently and fight corruption, but corruption has been seen in the act's implementation.

Key Findings

- The act is having a significant impact on the lives of the poor with rural wages increasing, but its effectiveness varies according to activity and location.
- Simulations using an economy-wide model indicate that the act has a positive macroeconomic impact, leading to increases in GDP and trade.
- As the program shifts purchasing power from the urban rich to the rural poor, the structure of demand changes. Economic activity in agriculture, processed food, and light manufacturing increases and activity in heavy manufacturing and services declines. Likewise, the demand for unskilled labor in urban and especially rural areas increases, while the demand for mainly urban skilled labor decreases.
- Poor households benefit from added employment opportunities, while high-income households might suffer from weaker demand.
- The act is likely increasing land productivity, which boosts GDP and opens the opportunity to introduce incentives to investment while keeping tax rates constant.
- Given India's weak institutional setting, a new way of doing business is necessary to implement the act's detailed and ambitious procedures. Institutions must solidify processes for making information transparently available, and communities need to be involved in creating and managing projects.
- The act is a work in progress that needs ongoing evaluation to fully succeed and keep the corruption affecting the program's implementation in check.

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