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December 2023

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Abstract

This paper analyzes how India's Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) relates to Modern Monetary Theory (MMT) principles. The paper finds that MGNREGA aligns with MMT principles as a countercyclical automatic stabilizer, as shown by expanded budgets during economic shocks like COVID-19. It boosts incomes and aggregate demand. Evidence shows participation in MGNREGA rises during economic slowdowns. The paper finds empirical alignment between MGNREGA and MMT concepts including deficit spending to enable full employment, recognizing inflation constraints, and utilizing idle resources to benefit society. Critics argue MMT risks inflation, but productive assets created under MGNREGA are non-inflationary. The paper also finds higher female participation in MGNREGA and IGRY (Indira Gandhi Shahri Rojgar Guarantee Yojana), promoting inclusive growth. Overall, the analysis shows MGNREGA's consistency with MMT tenets around sovereign currency and the viability of job guarantee schemes.

Introduction

For several reasons, a job guarantee is of crucial importance. Tcherneva (2020) argues that by eradicating involuntary unemployment, these initiatives may provide everyone with social inclusion, economic security, and environmental sustainability. Job guarantee program eliminates involuntary unemployment and provides economic security for all workers, regardless of their skills, education, or background. It contributes to the public good by creating useful and meaningful work in areas such as education, health care, environmental protection, and community development. It stabilizes the economy by

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acting as a countercyclical buffer that automatically adjusts to changes in aggregate demand, preventing inflation and deflation. It also transforms the labor market by instituting a living wage floor and enhancing the bargaining power, working conditions, and benefits for all workers. Tcherneva (2020) criticizes the current labor market for enabling outcomes of unemployment, inequality, poverty, and environmental harm. This highlights the motivation for understanding real-world job guarantee schemes like India's MGNREGA through an MMT lens.

MGNREGA (Mahatma Gandhi National Rural Employment Guarantee) Act 2005 Act is one of the landmark pieces of legislation that reaffirmed India's status as a welfare state. This policy aims to provide at least 100 days of guaranteed wage employment to rural unskilled labor in every financial year—to every adult in the household who is willing to perform unskilled manual labor. It recognizes the Right to Work as a legal right. It is the world's largest direct employment scheme. MGNREGA ensures welfare by setting the minimum wage to which every employer should comply. It makes society equitable and removes discrimination based on gender, religion, and caste by providing a cushioning effect. It has assisted in reducing wage volatility, the gender pay gap in the workforce, and labor exploitation.

P.V. Narasimha Rao originally proposed the NREGA (National Rural Employment Guarantee) Act in 1991. It was finally approved by the parliament in 2006, and implementation in 625 Indian districts got underway. Based on this pilot program's success, NREGA's coverage was expanded to include all Indian districts beginning on April 1, 2008. NREGA was renamed with the prefix “Mahatma Gandhi” on 2 October 2009, Gandhi Jayanti. In 2022, a new scheme with similar fundamentals was introduced in Rajasthan as IGRY (Indira Gandhi Shahri Rojgar Guarantee Yojana). The key difference between both of these schemes is seen in their different goals. The (IRGY) aims to offer 100 days of assured wage employment to adults aged 18-60 living in urban areas. In contrast, (MGNREGA) is focused on the rural population, with a minimum working age of 18 years and no maximum age limit. These proposals have been admired greatly by MMT (Modern

Money Theory) theorists, addressing the whole population's employment and sort of mitigating the problem of the whole country if implemented at the national level.

MMT Theoretical Framework

Mitchell (2020) ascertains the MMT point of view by contrasting it with the mainstream macroeconomic theory, which the author claims is flawed and unrealistic. He uses examples from Japan and the global financial crisis to show how the mainstream predictions of inflation, interest rates, and government insolvency have failed. At the same time, the MMT explanations have been accurate. He also discusses the MMT theoretical framework as an alternative by highlighting its key insights, such as:

Government spending is not financially constrained: The government that issues its own currency can never run out of money and can purchase anything for sale in that currency, including all idle labour.

Mass unemployment is a political choice: The government can always use its spending power to ensure full employment of all productive resources and maximize material prosperity within ecological constraints.

Taxation is not required to fund public spending: The role of taxation is to reduce private purchasing power and create space for public spending, not to provide revenue for the government.

Central banks can control bond yields: The government can always borrow at low interest rates by instructing its central bank to buy its bonds. Private markets cannot push up bond yields if the government does not allow them to.

He reaches the conclusion that MMT offers a precise understanding of actual monetary systems, enabling better policy development to address the current social, health, and environmental concerns.

In other words, Modern Monetary Theory (MMT) is an economic theory that asserts that governments that issue their own currencies can afford to spend as much money as they need, provided that the resources are available to meet the demand created by the spending.

It asserts at the macroeconomic level, a Sovereign country faces only real resources and governance constraints in achieving full employment and high growth.

Research Question and Methodology

This paper explores how MGNREGA embodies the concepts of MMT, such as providing a job guarantee program, using deficit spending to stimulate economic growth and social welfare, and managing inflation and unemployment. Does MGNREGA reflect MMT principles as an employment guarantee scheme? How has MGNREGA functioned as an automatic stabilizer, per MMT ideas? What evidence supports or disputes MMT perspectives on MGNREGA's effects?

This paper will empirically verify how MGNREGA aligns with the fundamentals of MMT. Data sources that are used in this paper are taken from MGNREGA, World Bank, and Ejalshakti. Data analysis is done through visualizations and checking the correlation between GDP growth and the MGNREGA budget. Basic arithmetic is used to find the per capita of person-days generated under MGNREGA in different states.

Empirically looking at the coverage of MGNREGA in India state-wise

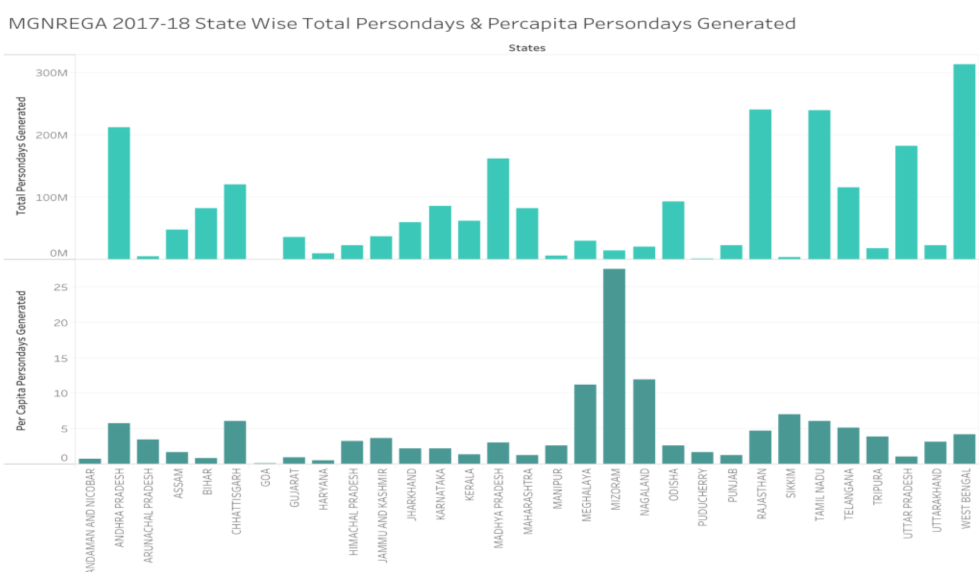


Figure-1 Source: MGNREGA and Ejalshakti

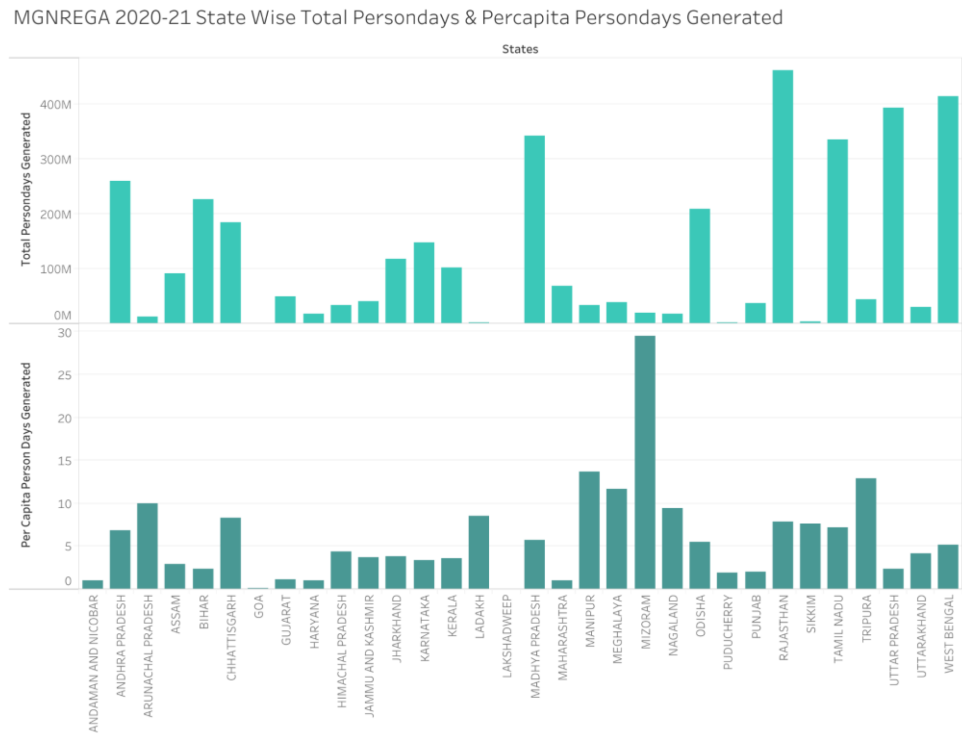


Figure-2 Source: MGNREGA and Ejalshakti

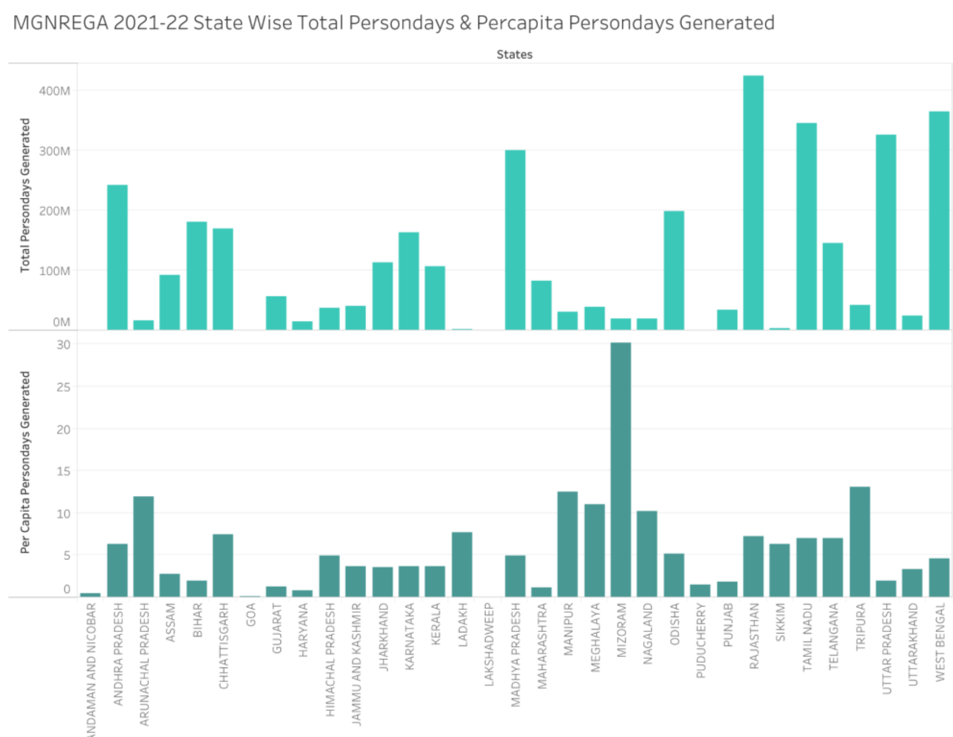


Figure-3 Source: MGNREGA and Ejalshakti

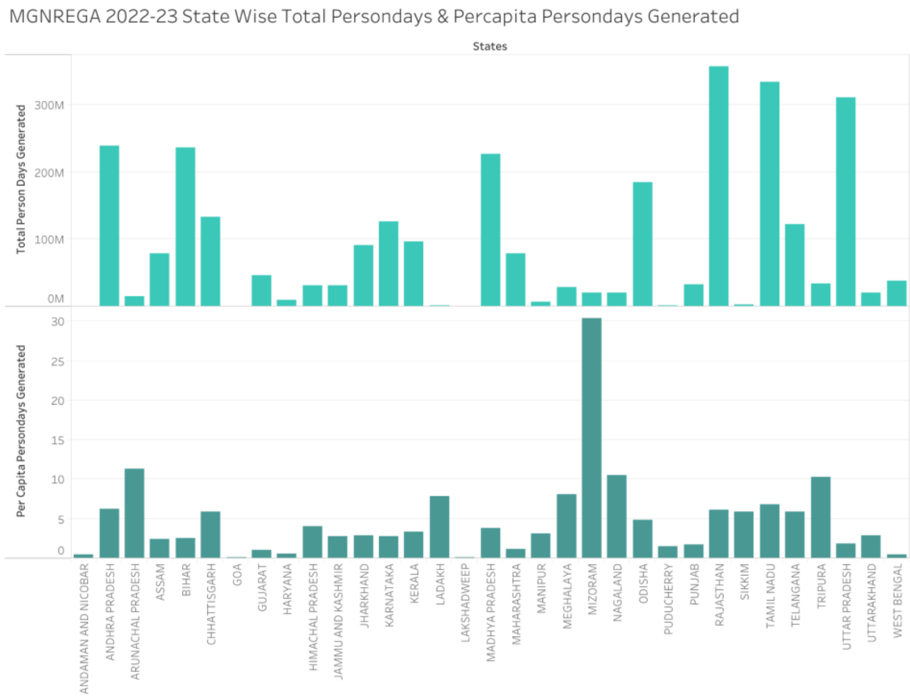


Figure-4 Source: MGNREGA and Ejalshakti

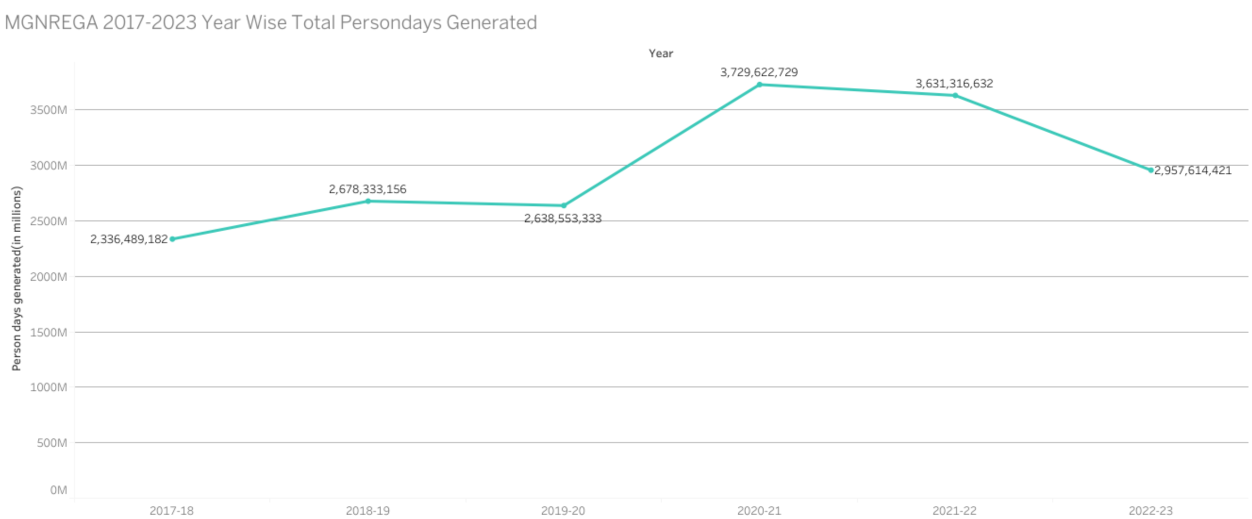


Figure-5 (MGNREGA Persondays generated over the years) Source: MGNREGA

The patterns depicted in Figures 1,2,3 & 4 show very minor changes over time while remaining mostly stable. Upon analyzing the Personday trends produced in the following statistics, it is apparent that the Northeast states exhibit the highest number of Persondays with respect to per capita figures. Even if their person-days produced do not far surpass those of others, their per capita values are the greatest. Notably, six states—W.B(West Bengal), Rajasthan, Tamil Nadu, Andhra Pradesh, Uttar Pradesh, and Madhya Pradesh—regularly rank at the top in terms of person-days generated, but with varied places throughout various years. However, in 2022-23, W.B. did not rank among the top six, and Bihar took its place in this specific year.

A different picture emerges when the top six states are examined simultaneously with respect to the number of person-days created per capita. Surprisingly, none of the states ranking among the top six in person-days generated managed to secure a spot in the top six for per capita person-days generated, with one exception: in the 2017-18 data, Tamilnadu held the sixth position among the top six states for per capita person-days generated.

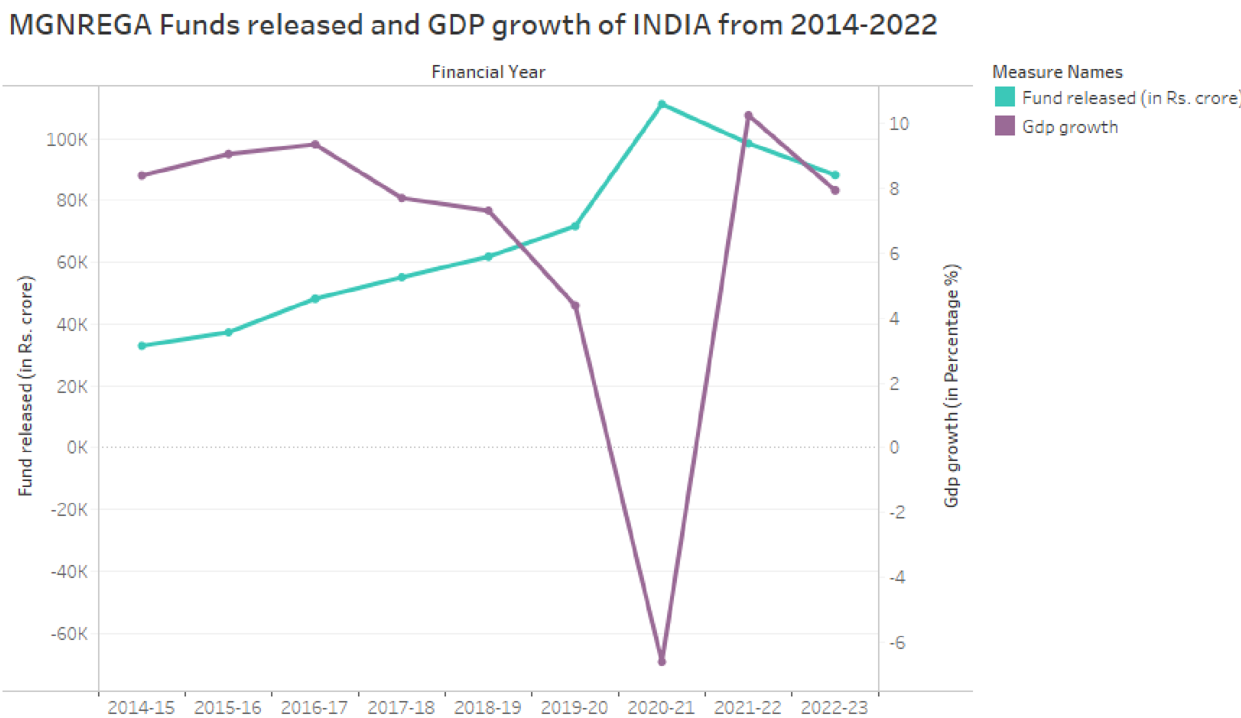


Figure-6 Source: MGNREGA and World Bank

In Figure 6, two data sets have been used. One of them is a fund released under MGNREGA. While the other is the percentage of annual GDP growth. Looking at the growth rates of GDP and MGNREGA fund released it appears that when one variable is going up, the other one is going down. The biggest change can be seen in 2020-21. This association is consistent most of the time if we look at the correlation between these two variables from 2014-15 to 2020-21 the correlation test shows a negative correlation of -0.944642204. This implies a strong negative correlation[2] and substantiates the counter-cyclical argument made in the paper.

MGNREGA as a Countercyclical Force

Now let's look at MGNREGA through the lens of MMT (Modern Money theory). This act correlates with the provision of a job guarantee program of MMT. This act has helped in increasing the overall aggregate demand and meticulously increasing economic security. For instance, if we take the example of COVID-19 this act has acted as a counter-cyclical measure which is part of MMT. From the below graphs, we can observe the rise in the approved budget and funds released. It is clearly evident that the budget in the COVID period between 2020-21 increased significantly.

MGNREGA serves as an automatic countercyclical stabilizer. For example, when the private sector is thriving, it will need to hire workers from the universal employment guarantees and pay a little bit more. Workers would be laid off when the private sector experienced a recession, and they would afterward enroll in the employment guarantee program at the minimum wage. Therefore, the expenditure would inevitably rise and the fiscal deficit would widen, as opposed to a boom where people leave the job guarantee program for the private sector and the fiscal deficit decreases. It functions as an automatic stabilizer in a way.

[2] Negative correlation implies that there is an inverse relationship between two variables. In other words, as one variable increases, the other variable decreases, and vice versa.

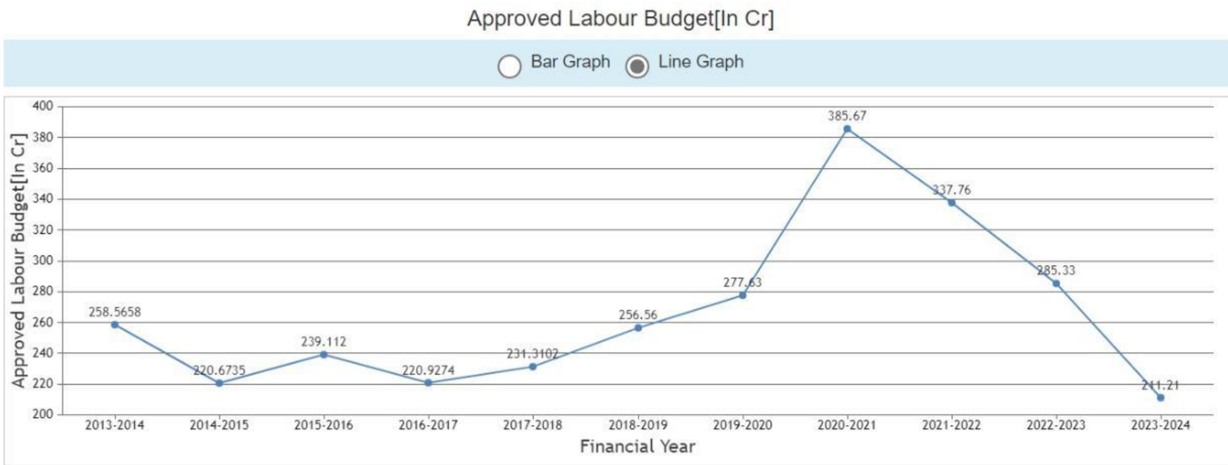


Figure-7 Source: MGNREGA

Financial Allocations to MGNREGA Act: 2014-2022 Expenditure (in Rs Crore)

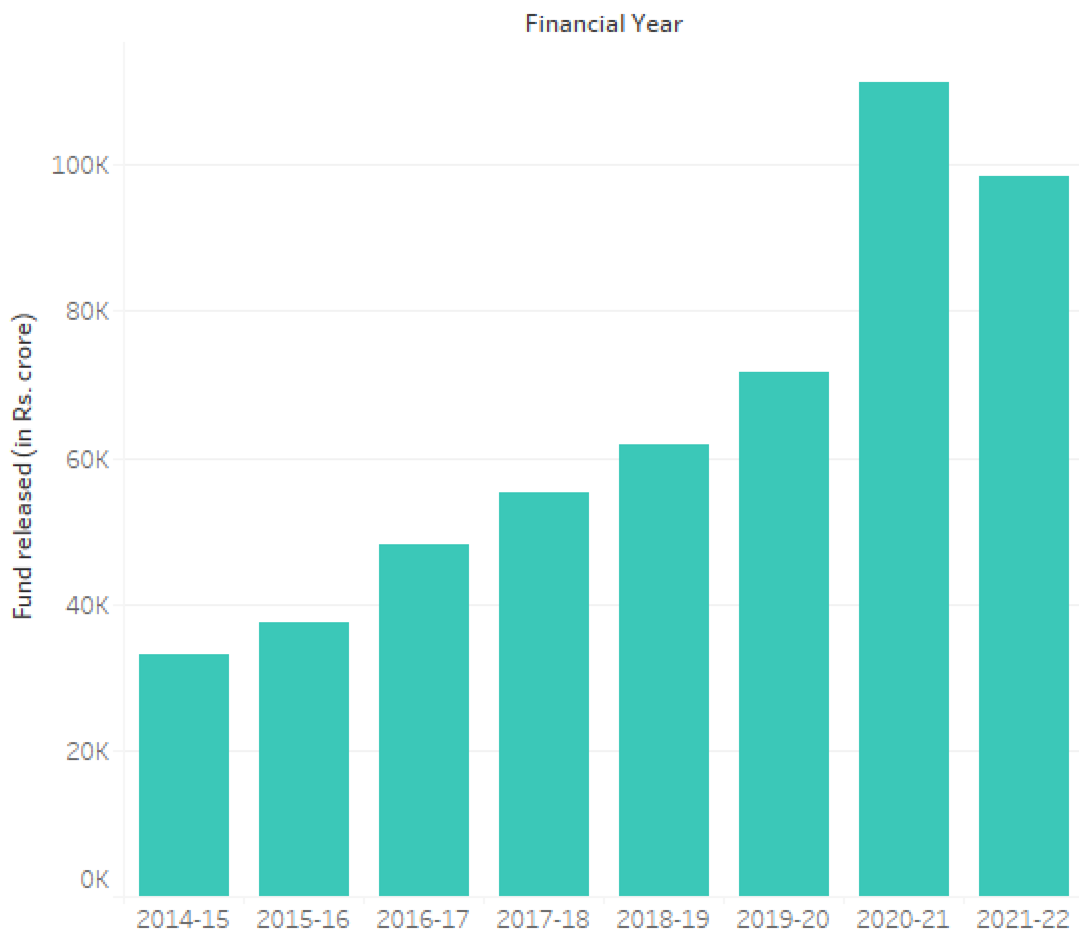


Figure-8 Funds released under MGNREGA from 2014-21 Source: MoRD

Another point worth emphasizing is that it is acknowledged that the deficit increased during the COVID period, yet the government proceeded with the expanded budget. As MMT suggests at a macroeconomics level, an economically sovereign country faces only real resource and governance constraints in achieving full employment and high growth. It faces no financial budget constraint in its own currency. In other words, the government can overcome monetary problems by printing more money for productive work such as building infrastructure without worrying about deficits.

The Job Guarantee program helps stabilize the economy and ensures that everyone has access to meaningful work and a steady income, contributing to reduced income inequality and poverty. The study done by Azim Premji University on the "Role of MGNREGA in the year after the 2020 lockdown" backs this claim. The report's findings align with the MMT as it says "We estimate that for households who found work in both the periods (pre-COVID and during COVID), the increased earnings from MGNREGA were able to compensate for somewhere between 20% and 80% of income loss depending on the block. For households who had not worked in the pre-COVID year but found work during the COVID year, we find that MGNREGA earnings compensated for anywhere between 20% and 100% of income lost from other sources".

Addressing Inflation Concerns and Leveraging MMT for Economic Growth

One counterargument that the critics of MMT make is that it can cause inflation. MMT does recognize inflation due to excess deficit spending. However, spending on productive work would not be a cause for rising inflation. As Mitchell (2020) asserts "If productive resources are idle, government spending can always bring them back into use, without generating inflation." For example, a substantial amount of work is being undertaken under MGNREGA to create assets such as the construction of schools, rebuilding water harvesting tanks, building sheds, agricultural produce storage facilities, and accomplishing various other MGNREGA-related tasks. This is not a program like universal basic income. It is beneficial to society on both a financial and social level. As the work in MGNREGA is demand-driven and work is based on the needs of the community. So there are a lot of scopes to do some grassroots work that will make an impact. People who are not currently employed begin to lose both their general and particular abilities, which is another issue that is addressed by this program. These types of job guarantee programs thereby prevent all of that from occurring, offer consistent income support, and—most importantly—fix the minimal amount that the deficit has to increase when there is a downturn to create employment. A socially inclusive minimum wage enables individuals to engage fully in the economy and society by engaging in social activities that aren't free.

Speaking with respect to MMT, if we look internationally, countries like the US and UK are more vulnerable to inflation as their real resources are already fully utilized. On the other hand, India has significant underutilization of real resources, which means that Modern Monetary Theory (MMT) could be used to address various problems. For example, India could pump money into its MSMEs (micro, small, and medium enterprises), which would lead to economic growth and job creation.

Another significant advantage of MMT is that it can be leveraged to stimulate economic growth in countries with underutilized resources. For instance, countries like India, which has a large population of unemployed workers and significantly underutilized land, could potentially use MMT to invest in infrastructure, education, and other productive sectors of the economy. This would create jobs and boost economic growth, without the need to rely on borrowing or foreign investment.

However, for MMT to be successful, an economy must be complex enough to internalize all of the demand that it creates. This means that the demand must be met by domestic production, not by imports. Sri Lanka faced a crisis in 2022 when it printed money to finance imports, which led to high inflation and a shortage of essential goods.

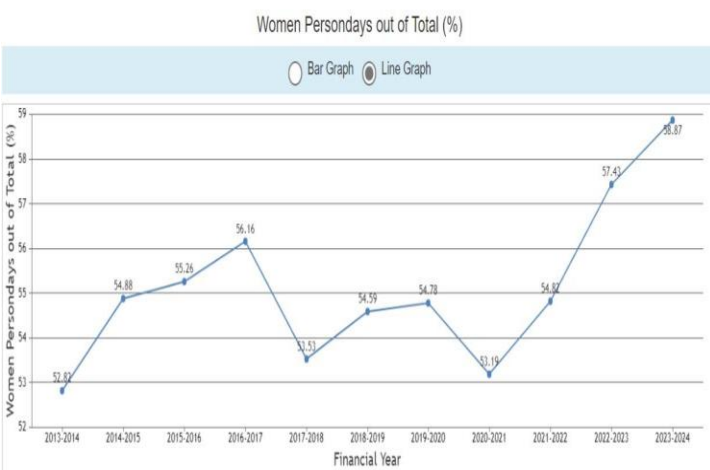
In the Phillips curve[3] idea, unemployment acts as a buffer so that the government may manage inflation. As a result, using unemployment as a tool to manage inflation becomes a policy. And in contemporary times inflation has been given priority over unemployment

[3] Phillips curve is an economic model that shows the trade-off between inflation and unemployment.

because of the target inflation rate. We may need to alter the unemployment rate in order to get this goal inflation rate. For instance, we would observe growing inflation and declining unemployment in an economy near its potential, and perhaps exceeding it. In such a situation, fiscal policy interventions can encompass changes in taxation, such as potential tax hikes, and reductions in government spending. Additionally, monetary policy comes into play through interest rate adjustments. In this scenario, raising interest rates might result in an economic slowdown, a tightening of the labor market, and a decline in wages, all of which would reduce inflation while modestly increasing the unemployment rate. As a result, you cut back on employment to combat inflation. The Phillips curve is designed with such in mind, then. As a result, we are adjusting the inflation rate using unemployment as a tool for policy. Now that we have a universal job guarantee scheme, we can really flatten the Phillips curve to cut unemployment rates without actually needing to accelerate inflation at the same time. Therefore, we might keep inflation at any desired level while avoiding the need to raise unemployment in order to reduce inflation.

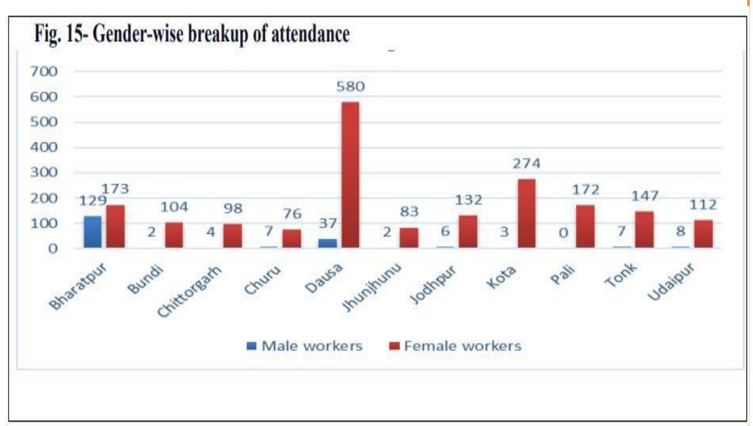
Gender Inclusivity

One intriguing thing comes out when one does look at the job data by gender-wise. Both in MGNREGA and IGRY female participation is higher than the males.



MGNREGA

Source-https://nrega.nic.in/



IGRY

Source-CRISP report

By looking at these stats one could confidently say that these job guarantee programs are very successful in making inclusive working environments for all regardless of gender. It's not been long since we used to hear about the gap in pay for female workers. Which in a sense does not make working attractive for females. We know for a fact that these programs have equal pay for all genders hence, promoting the participation of everyone, especially females.

Conclusion

MGNREGA embodies the concepts of MMT, showing how a government may print money to finance initiatives that ensure jobs for its citizens. It demonstrates that in order to combat unemployment and raise living conditions, the government may invest in public welfare programs and generate jobs. Funding for MGNREGA is determined by the government's commitment to guaranteeing the right to work and creating employment possibilities, not by tax income as we have seen during the COVID-19 pandemic. This is consistent with the fundamental MMT premise that a sovereign government may allocate funds to satisfy economic requirements.

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