Workfare or welfare? Assessing the impact of India's rural workfare programme

By Clement Imbert

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Workfare programmes, which provide income support in the form of employment on local public works, are popular throughout the developing world. According to a recent World Bank report, 94 countries use such programmes (World Bank 2015). The largest is India's Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which provided employment to 51 million households (about 240 million people) in 2016.

For a number of reasons, governments might choose to implement workfare rather than, or in complement to, welfare programmes, such as cash transfers, pensions, and health insurance. A well-known argument in favour of workfare programmes is that they are "self-targeted". That is, by requiring beneficiaries to do manual work on public projects these programmes deter the rich from claiming benefits, and deter the poor from relying too much on them.

At the same time, however, questions remain about the spill-over effects of workfare programmes on other aspects of the labour market. By hiring workers on public works projects, such programmes reduce the labour supply available for private-sector work. They may, hence, crowd out private employment and/or increase wages. These effects are often ignored because workfare programmes tend to target workers with few employment opportunities. ▶

For example, India's programme targets rural workers during the lean season of agriculture.

In our research, John Papp and I examine the impact of India's workfare programme on the labour market. Our work addresses three questions:

- How does India's rural employment guarantee affect private-sector employment and wages in rural areas?
- How does the public works programme affect migration flows from rural to urban areas?
- Does the programme have an effect on wages in urban labour markets?

Rural labour market effects: To evaluate the impact of the programme on rural labour markets, we compare districts that implemented the programme earlier and later over the course of the 2006-2008 rollout. We find that workfare employment increased rural wages by 5 percent. We also find that workfare crowded out private-sector employment. For each additional day provided on local public works, rural adults spend one fewer day doing private-sector work (including self-employment on the farm, and domestic work). The wage effects are concentrated during the agricultural off-season (January to June), when public works are open, and in seven states that provided the most programme work.

Rural-to-urban migration: We also investigate the effect of the programme on seasonal rural-to-urban migration. Our analysis, which focuses on a high out-migration area at the border of three states, shows that seasonal migration is lower in Rajasthan, which provided more workfare employment during its working season. Potential migrants employed through the public works programme forgo much higher earnings in the city in order to stay in the village.

The results suggest that seasonal migrant workers incur significant migration costs, including higher cost of living and risk of failed migration. A large share of these costs is non-monetary (harsh living and working conditions away from family and friends).

India's programme increased rural and urban wages, and reduced rural-to-urban migration.

Urban wages: We also analyse the effect of the programme on urban wages. Districts that were selected to receive the workfare programme first are home to the most seasonal migrants in India. We find that among these states We find that among these districts, those located in the seven ``star states'', which implemented the program well, saw a decline in out-migration. We next show that wages rose faster in cities that rely on migrants from star states, and slower in cities that rely on migrants from other states. Overall, we argue that migration from star states declined by 22 percent, but that rising urban wages attracted 5 percent more migrants from other states. The rise in wages was almost entirely offset by this increase in short-term migration from districts that do not have the work guarantee programme. As a result, in net, urban wages increased by only 0.5 percent.

Based on these findings, three policy-related implications emerge:

1. The rural poor have employment opportunities in the private sector

Our work suggests that the opportunity cost – the productive value, that is – of time among the rural poor in India is considerably higher than zero, even in the lean season of agriculture. India's rural employment programme, like other workfare schemes, aims to offer income support to people who have limited employment opportunities. However, we show that the programme displaces private-sector work in the village or the city. Thus, the monetary gains from the programme to beneficiaries are lower than wages earned on public works. Non-monetary benefits from the programme may still be significant; would-be migrants who remain in the village to undertake programme-related work choose to incur an income loss to avoid the cost of migration.

Workfare programmes are first and foremost safety nets. These programmes are distinct from – and sometimes preferable to – cash transfers.

2. Rural employment programmes can also impact urban areas

Our work also shows that workfare programmes have important and far-reaching effects on labour markets within and beyond the immediate area in which they are implemented. Our work shows that even though India's programme is, ostensibly, a rural one, it has increased wages in both rural and urban areas. The rural wage effects challenge the traditional view of rural India as a surplus labour economy, and suggest that competitive forces are at play in rural labour markets. The results from our work on migration and urban wage effects highlight that rural areas which are often described as "village economies" are in fact strongly connected with the modern and urban parts of the economy.

3. The indirect effects of these programmes are significant

Our work shows that through private-sector wages, local public works affect not only programme participants, but also workers and employers across the country. Since the poor are more likely to work for wages, and the rich are more likely to hire workers, wage increases magnify the redistributive impact of workfare schemes. We show that the indirect benefits from higher wages may be as high as 50 percent of total benefits for the rural poor. Conversely, richer (rural and urban) households stand to lose from increased wages, which may explain part of the political opposition to the programme.

Poverty alleviation: workfare versus a cash-transfer programme

We can use our results to compare poverty reduction achieved through the workfare programme with a cash transfer that would distribute the same budget equally across all rural households. We measure rural poverty either by the poverty rate, which measures the percent of the population living at or below the poverty line, or by the poverty gap, which measures the average distance, in percentage terms, between the income of poor households and the poverty line. The poverty gap provides a measure more sensitive to depth of poverty. On the one hand, the poverty rate is lower or the same with an unconditional cash transfer. On the other, the poverty gap is lower with the workfare scheme due to the rise in private-sector wages, which disproportionately benefit the poorest of the poor.

This analysis does not account for productivity spillovers. For example, workers hired on public works may learn useful skills. Built infrastructure, such as roads and irrigation, may benefit the private sector. However, the focus of the programme remains on providing employment locally and readily. Hopes of using the programme's workforce for other construction schemes have been short-lived. Meanwhile, other government schemes focus on skills training or roads infrastructure. The distinction between workfare and public works was also present in the U.S. New Deal programmes in the 1930s, with the Work Progress Administration and the Public Works Administration. Workfare programmes are first and foremost safety nets, which are distinct from, and sometimes preferable to cash transfers, because of their effects on labour markets. ◀

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Publication Details

This article is based on a column that was first published jointly by Vox.dev.org and Ideas for India, and synthesises findings from the following academic papers:

Imbert, C. (2013), "Travailler pour être aidé : L'emploi garanti en Inde", Opuscule no. 33 CEPREMAP, Ed. ENS Rue d'Ulm, Paris.

Imbert, C. and Papp, J. (2015), "Labor market effects of social programmes: Evidence from India's employment guarantee," *American Economic Journal: Applied Economics* 7(2): 233-263.

Imbert, C. (2016), "Short-term migration rural workfare programmes and urban labour markets - Evidence from India," The Warwick Economics Research Paper Series (TWERPS) 1116.

Imbert, C. and Papp J. (2018), "Costs and benefits of seasonal migration: Evidence from India", The Warwick Economics Research Paper Series (TWERPS) 1161.

Imbert, C. (2018) "Poverty alleviation under the NREGA", Manuscript.