

Ten Lies and an Act – Part I

By Surjit S. Bhalla

(*Business Standard*, Dec. 25, 2004)

Blurb: The motto of the EGA faith: “what I believe is true, the facts are problematic”.

This (and the next two articles) will analyze the process of thinking that seems to have gone into *the* major policy initiative of the Congress led government, the Employment Guarantee Act (EGA). This policy initiative is deeply flawed, and smacks overwhelmingly of a “take no prisoners” or “don’t confuse me with facts” ideology. So much so, that barely no aspect of the program is not driven by either lies, near lies, or falsehoods (hereafter LNLFs). And if ideology is not the false god, then the only other possible cause behind the pursuit of the act is pursuit of corruption i.e. the Act is being advocated because it will enrich the political parties involved in the making of the Act, and those it will choose to anoint as the receivers of its munificence. Unfortunately, we have not been able to identify which of the two forces is more forceful – yet. But readers are invited to supply methods, and or reasoning, to identify the real culprit. We (at present) however, presume too much. It first needs to be established that the Act is full of LNLFs.

This accusation is not lightly made. The roster of individuals, thinkers, and economists who have doubled as *policy makers* (hereafter POMs) of the Act is frightfully distinguished. The four leaders in this ostensibly path breaking law making campaign are Jairam Ramesh, Rajya Sabha MP, former aide to the Finance Minister P.C. Chidambaram, and alleged author of the Congress election manifesto; Dr. Jean Dreze, member, National Advisory Council, and co-author of several books on social *policy* with Nobel Laureate Amartya Sen; Ms. Aruna Roy, leading social activist and the author of the highly desirable Right to Information Act; and Dr. Abhijit Sen, author of several reports on poverty and Member, Planning Commission. Add to this the full weight of the National Advisory Council and you get the picture of the intellectual baggage this Act comes with.

The first LNFL is that the government is pursuing the EGA because of pressure from the Left. Normally, this accusation would be convincing except for the following quote from the Congress party election 2004 manifesto (released long before it was known that

Congress would form the next government): “A national Employment Guarantee Act will be enacted immediately. This will provide a legal guarantee for at least 100 days of employment on asset-creating public works programmes every year at minimum wage, for every rural household.” This is not very different from the statement in the present draft of the Act: “Every household in the rural areas of India shall have a right to at least 100 days of guaranteed employment every year for at least one adult member, for doing casual manual labour at the statutory minimum wage, and to receive the wages thereof within 7 days of the week during which work has been done”. So, please, members of the Congress party, don’t accuse others of instigating what you, yourself, so proudly initiated.

The second lie is that regardless of the fatherhood of the Act (i.e. the Left or the left Congress), such a job guarantee program is actually needed by the Indian economy and especially *needed* by the Indian poor. In the previous article (Corruption with a Human Face, *Business Standard*, Dec. 12, 2004) I had documented that *an employment guarantee was not needed by the poor*. This seemingly heartless conclusion was based on the observation that according to the very large unemployment surveys (more than 6 lakh individuals) conducted by the National Sample Surveys (NSS), poor agricultural workers had an unemployment rate of only 1 percent! In other words, the poor were not poor because they had no work – the poor were poor because they had little human capital and therefore received low wages, and therefore had low incomes. So how will a job guarantee program (and that too with wages below “market” wages) help the poor with additional employment or additional income? They can be helped if either you provide them with a job when they don’t have one, or provide them with higher wages. The latter option the POMs rule out because they want to target the really poor and, in order to do so, want to offer low, below “market” wages. The first option is ruled out by the NSS data on employment for not just 1999/00 but also the earlier surveys in 1993-94 and 1983!

When the deans of this Act (Messrs. Dreze and Abhijit Sen) were confronted with these realities, their response was “The NSS data on employment is problematical”. Why is it problematical was presumably beneath their intellectual dignity to explain. But it should be emphasized that Mr. Sen, in particular, has been at the forefront of defending the NSS survey data against all criticism: “the much maligned NSSO emerges rather well, at

least compared to its users” (with Himanshu, Poverty and Inequality in India, EPW, Sept. 2004). It seems rather disingenuous to claim that the much more difficult to survey NSS *consumer expenditure* data are okay (at least compared to the users!) but the relatively easy to gather NSS *employment* data are deeply “problematical”.

What supports the accusation that the second Lie is a lie with a capital L, is the behavior of Mr. Dreze in his public defense of the EGA. He made it a point to bring to seminars, TV shows etc. people who had actually worked on “food for work” type government programs. Not only brought them, but emphasized that their presence, and their views, confirmed that the employment guarantee act was a major, positive feature of anti-poverty policy. I guess next time Mr. Dreze will bring a unionized teacher from West Bengal to support further public expenditures on education (he must have already done that since we are all paying the education cess to support corruption in the name of the uneducated). While doing so, he should note that even Prof. Amartya Sen feels that unionized teachers don’t show up to teach students but invariably are available to tutor these very same students at home for a fee! Now obviously a small fraction of the poor do receive jobs working on government projects – but for every such person, there may be five others who are receiving pay for no work. Just like there are unionized teachers in Left dominated West Bengal who teach *in* schools.

While on the issue of lies and facts, it needs exposure that Mr. Sen, a senior functionary of the Planning Commission, publicly stated that he was requesting World Bank poverty experts, specifically Mr. Martin Ravallion, to provide the Planning Commission with information and analysis of the “good” employment generating capacities of the EGA. I have nothing against hiring foreign experts to inform us about what policies India should follow and the World Bank, as an institution, houses many credible experts. But I am wondering what happened to the Left’s patriotic and heartfelt concern for sovereignty? Or is it the case that, as suspected, the Left’s view of the world is what its senior leader, also a non-Indian, Mr. Nikita Khrushchev, once accused the capitalist West of possessing: “What is mine is mine, what is yours is negotiable”.

The remaining eight lies are blowing in the wind and forthcoming.

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Ten Lies and an Act – Part II

By

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(*Business Standard*, Dec 30, 2004)

Blurb: Support for deeply flawed initiatives like the EGA is indicative of the nature of the poverty industry today.

The first part of this three part series documented two of the ten lies, near lies and falsehoods (LNLF) that have gone into the formulation of the Employment Guarantee Act (EGA) . The first lie was the statement that the EGA was the property of the Left ; it actually originated with the Congress election manifesto. The second lie was the assertion that the EGA would generate employment for the poor; it was shown that the poor were too poor not to work and that the poorest – agricultural labourers - had an unemployment rate of close to 1 percent. Hence, the EGA would only provide *substitute* employment and not *additional* employment.

This part adds four more to the list. The third lie is the lie on social spending. For some time now, international aid organizations like the World Bank and the NGOs (whose *own* influence, power and income growth, not surprisingly, depends on the conversion of such LNLFs into “facts”) and social experts have been stridently claiming that India spends too little on health and education, both in absolute terms, and especially with regard to its comparators (other developing countries). Sometimes, perhaps with journalistic license, there is some exaggeration; Mr. Jean Dreze, the lead author of the EGA act has this to say: “Public social spending in India is barely 6% of GDP, compared with 17% in the US, 26% in Britain and 36% in Sweden”. (*Financial Express*, Dec 17, 2004)

It is difficult to count the number of LNLFs in this statement, and somewhat shocking that it was written by someone who has co-authored several books on the subject with Amartya Sen i.e. by someone who should know not better, but considerably better. First,

there is the problem that the comparison is being made with developed countries with per capita incomes more than 10 times that of India. Second, the figures cited by Mr. Dreze for the rich countries include pensions, social security, unemployment benefits etc i.e. rich world concerns. A revealing comparison is the public expenditure on health and education (primary and secondary). The comparative picture in 2000, and one radically different than the painting by Mr. Dreze, is as follows: developed countries spent, on average, 9.5 percent of GDP; Eastern Europe spent 8 percent, and developing countries 7.5 percent, India 4.5 percent and China 3.4 percent (World Bank WDI data). For all developing countries with per capita incomes upto twice that of India, average expenditures were only 3.6 percent of GDP. Comparing like with like, India is a good, if not a star, performer in social expenditures. It is another story altogether whether such expenditures are actually effective – the fact remains that India spending too little on social services relative to what one should expect, is a lie. But how can anyone object to lies if it can ostensibly benefit the poor?

Noteworthy about the EGA is the Bollywood campaign conducted by its advocates to garner support. Heart strings are tugged at, sometimes unnecessarily and often tangentially. All in the game of trying to prey on the middle class's sense of goodness. And convinced about their *own* goodness, the advocates have become brazen. Ms. Aruna Roy, another advocate of the EGA, rather boldly proclaimed on a NDTV program, "*We the People*" that an employment guarantee was needed to alleviate hunger and starvation deaths. How did she know this? Because she had worked in villages for the last twenty years and we just have to believe that she will not tell a lie. Mr. Jean Dreze echoed Ms. Roy's analysis and conclusions on hunger, starvation, and the importance of the EGA to prevent such horrors. This is the *fifth* lie i.e. that only the weatherman knows which way the wind blows, or only those weathered by working among the poor people know not only what poverty is in a local area, but in the entire country of a billion people. (This disdain for empirical evidence is the defining characteristic of those who know they are stating a LNLF).

Household surveys were invented to help identify such casual empiricism. The National Sample Survey has asked a specific question on hunger for the last twenty years. The question: "Do all members of your household get enough food everyday?" There are three possible answers; yes: throughout the year, some months of the year or no. The

last two categories indicate the presence of hunger . Somewhat strikingly, the latest NSS survey (July-Dec 2002), conducted during the *worst* drought in the last thirty years, shows the incidence of hunger (chronic plus seasonal) to be only 1.6 percent of the rural population. It was not always this low; in 1983, 17 percent of the rural population did not have two square meals throughout the year; this number had declined to 5 percent in 1993/94 and 3.1 percent in 1999/00.

These data quite conclusively establish that while poverty remains, hunger is not a problem for more than a very small fraction of the Indian population. On the same NDTV program, Dreze stated the need for EGA by referring to Indian economic history: “If it had not been for employment programs, India would have had starvation deaths in the last thirty years, just as it did in the 19th century”. If true, the implications are depressingly profound i.e. that the Indian economy is much the same as it was more than a 100 years ago.

The sixth LNFL is that “India’s tax-GDP is very low in international perspective: about 15 percent (center plus states) compared with, say, 37 percent in OECD countries”. (Jean Dreze, Hindu, Nov 22, 2004). There is a pattern here; compare India to the richest countries in the world to make an economic point. I didn’t realize that the intellectual left had been so caught up in the “India Shining” rhetoric of the BJP!

Again, a simple reading of international data for circa 2000 would suggest that the Indian tax/GDP ratio of 15 percent is the same as the median developing country, and about 1 percentage point lower than the average East Asian economy. For countries with PPP per capita incomes upto twice that of India, *and excluding all countries with per capita incomes below India*, the median tax/GDP ratio in 2002 was only 14.1 percent, the average somewhat higher at 16.8 percent of GDP. So it is wrong to contend that since the EGA would cost only one percent of GDP, India can well afford the additional taxation. There might be a need for additional taxation, but it is incorrect to state that Indian tax collection is “very low”.

In this data age, all data based “facts” can be readily verified. We have used World Bank WDI data throughout in making cross-country comparisons, and these calculations

suggest that a fair amount of the *fact* based support for the EGA is just not there. It is noteworthy that the President of the World Bank, Mr. James Wolfensohn, was rather fulsome in his praise for the EGA. He should ostensibly know, because poverty reduction is the *raison d'être* of the World Bank.

How is it that a deeply flawed initiative like the EGA is able to garner intellectually credible support? It is a question for all of us to consider. One reason might be the fact that today, both government policies to eradicate poverty and the poverty studies needed to support such initiatives is a major industry. Any dent in calculations of poverty is met with extreme hostility. So while we ponder about the retraining of workers due to the imperative of globalization, spare a thought, and a dime, for those poor-rich fellows whose profits derive from the industry of poverty.

Ten Lies and an Act – Part III

By

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Blurb: The EGA advocates believe that advocacy of poverty removal is noblesse oblige; hence, anything goes, even extreme intellectual dishonesty.

The previous two articles (*Business Standard*, Dec. 25th and Dec. 30th, 2004) documented six LNFL's – Lies, Near Lies and Falsehoods – in the governments super creative Employment Guarantee Act (EGA). This ambitious act, supported fulsomely by the World Bank President, Mr. James Wolfensohn and in a somewhat flip-flop manner by Nobel laureate Amartya Sen (“ a very worthwhile program but one should be cautious”) purports to provide 100 days of *guaranteed* employment to every poor person in the country. The articles documented that the politically correct EGA had very little substantiation in the form of facts. This article documents four more LNFLs.

The seventh lie is the claim that the Indian experience with employment programs has been successful and therefore should be expanded from about Rs. 5000 crore today to Rs. 40,000 crores in the United Progressive Alliance's (UPA) *nirvana* of tomorrow. Apparently, the arrogance of poverty ideology recognizes no limits to LNFLs. The EGA advocates fail to point out that the government was only able to spend 81 percent of the allocated expenditures in 1999/00 (see Table). How can one therefore extrapolate that the government can manage to spend ten times the amount, and that too in a booming rural economy (and booming because of the UPA's policies of employment generation!)? Even residents of cuckooland do not make such claims.

The eighth LNFL is somewhat involved. Essentially, the advocates argue, with support from well-meaning liberals (is there any other kind?), that the EGA would be self-targeting and therefore a good, if not the best, policy to help the poor. As evidence they point to the “success” of the Employment Guarantee Scheme (EGS) in Maharashtra, a job scheme in operation for decades.

In the beginning (early 1970s) the EGS claimed to have spent over 90 percent of total expenditures on wages – this number fell to 60 percent in 1993/94 and has stayed at the same ratio through the nineties. So much so that the EGA advocates have used this ratio as a benchmark for their calculations. Therefore each 100 rupees meant for employment delivers 60 rupees of employment. The poverty impact of such programs (hereafter called the Rajiv Gandhi Index of Government Expenditures or RGIGE), if all the employed were poor, would be 60 i.e. 60 percent of expenditures meant for the poor reached the poor. Recall that Rajiv Gandhi had stated that the average index value of government “in the name of the poor” programs was around 15, so the EGS does *seem* to have been a particularly good, pro-poor program. This is a lie (the eighth) – the effectiveness of the EGS program is nowhere close to the 60 percent assumed by the priests of the employment guarantee act. At best, it is around 5 to 10 percent (Table).

The EGA Bollywood heart tugging campaign informs us that the jobs offered are back-breaking and the wages offered are low - so only the poor apply. How can one verify whether such assertions are true or are another LNLFF? A prior question – forget the poor beneficiaries, how can we verify that the government provided, nationally, 108 crore mandays of work in 1993/94 and 55 crore mandays of work in 2000/01? Most, (if not all) analyses of government programs take the government estimates to be true, and then proceed to analyze the incidence, benefits and costs etc. Using government data on inputs and outputs maybe, just maybe, akin to believing Enron’s cookbooks.

The veracity of any (private or public) claim can be checked via the market place. If a corporation claims it is selling so many toothpastes, one can verify by counting the toothpastes sold. The equivalent of the market test for the public sector is a household survey on employment. Fortunately, the government’s own National Sample Survey Organization’s (NSSO) has estimated the amount of work created by public works programs. Indeed, Dr. Abhijit Sen, member Planning Commission and one of the “sponsors” of the EGA Act, asserted that the NSSO survey estimates *validate* the government’s claims of employment generation i.e. the NSSO estimates of employment in government public works are very close to those of the government. In other words, no Enron effect here, at least according to Dr. Sen.

The NSSO documentation of public works employment is radically different than Dr. Sen's assertions. This is the ninth lie. Instead of the government claim of creation of 108 crore mandays in 1993/94, the NSSO number is only *one-third*: 34 crore mandays. For 1999/00, the lie is not less. For its two flagship employment programs - the Employment Assurance program and the Jawahar Gram Samridhi Yojana – the government claims to have created 55 crore mandays. The NSSO verification number: only 20 crore mandays. For both these years (one during Congress rule and the other during BJP rule) the stated mandays are almost three times higher than official mandays – lots of leakage (lies) here.

But, several liberals contend, one should not begrudge such lies because, after all, the poor make a pittance and the EGA can only help. Mr. Jean Dreze, National Advisory Council member and the leading point person of the EGA advocacy, asserts that the leakage in job programs is very low: “Three fears about the EGA need to be addressed. One is that the money will be wasted due to widespread corruption. Rajiv Gandhi's statement that only 15 paise out of every rupee of public expenditure on anti-poverty programmes actually reach the poor is often quoted in this context. Aside from the fact that this much-cited figure has never been substantiated, it is important not to interpret it as a law of public expenditure in India. For one thing, the effectiveness of public spending varies a great deal between different programmes. While leakages are certainly rife in many cases, there are also important examples of anti-poverty programmes that have done relatively well, and relief works are among these”. (*Financial Express*, Dec 17, 2004)

This is the tenth lie, and possibly the biggest. In 1993/94, only 50 percent of the employed beneficiaries were poor; in 1999/00, the fraction came down to less than a third, 31 percent. (These very same programs were *assumed* by Mr. Dreze to have minimum leakage). Which means that Rajiv Gandhi's estimate of the fraction of expenditures reaching the poor, was an estimate of an inspired genius – and that of an optimist. Even for the holier than thou government employment programs, the poor received only 9.0 percent of expenditures in 1993/94 and 7 percent in 1999/2000.

As a practicing economist, I must confess that I have never seen such a lack of documentation, let alone LNLf's, for any important government initiative, either in India

or the rest of the world – either now, or a 100 years earlier. It was this shock, and this recognition, that propelled me to write these three articles. What is most unfortunate is the barely concealed arrogance of the representatives of the poor. They seem to have an overriding belief that since advocacy of poverty removal is *noblesse oblige*, that anything goes, even extreme intellectual dishonesty. This is one bluff that is the most necessary to call. With this article, the Calling the Bluff series ends – it can never be more fruitful. The next series is a close cousin and seems particularly appropriate in these times of human face reforms – *Jadu economics*.

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Rajiv Gandhi Index of Effectiveness of Government Expenditures

Row No.		1993/94	1999/00
All India			
1	Government allocated expenditure (crores)	4059	5227
2	Government spends (crores)	3874	4215
3	Government spends on wages(%)	57	59
4	Mandays created (Govt), in crores	108	55
5	Mandays created (NSSO), in crores	34	20
Rajiv Gandhi Index of Effectiveness (RGIGE)			
6	Step 1 (Row 3*Row5/Row 4) (in %)	17.9	21.5
7	Percentage of poor beneficiaries (NSSO data)	50	32
8	RGIGE, final (Row 6*Row 7/100) (in %)	9	7
Maharashtra			
9	Mandays created (Govt), in crores	14.8	9.5
10	Mandays Created (NSSO), in crores	3.5	1.7
11	Mandays Created for Poor (NSSO), in crores	1.8	0.4
12	RGIGE, final (in %)	12.4	4.5

Source: Department of Rural Development, Government of India; NSSO Employment Unemployment Surveys for years 1993-94 & 1999-00.

Notes: Government allocated funds are computed as the sum of funds allocated and spent on JRY/JGSY & EAS. JRY: Jawarar Rozgar Yojana; JGSY: Jawahar Gram Samridhhi Yojana; EAS: Employment Assurance Scheme