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Employment Guarantee as a Labour Market Intervention: The Indian Experience

Dr. Minhaj Uddin Barbhuiya

Assistant Professor, Department of Economics, Jagannath Singh College, Udharbond, Cachar, Assam, India

Abstract

Employment guarantee programmes have emerged as an important labour market intervention through which governments act as the Employer of Last Resort (ELR) to address unemployment, poverty, and livelihood insecurity. This paper provides a conceptual analysis of employment guarantee with particular reference to the Indian experience. It describes the evolution of public employment programmes in India from the Rural Works Programme of 1961 to the enactment of the National Rural Employment Guarantee Act (NREGA) in 2005 and the implementation of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The paper examines the rationale for employment guarantee as an active labour market policy and highlights its role in providing income security, stabilising rural labour markets, reducing seasonal unemployment, and creating productive rural assets. The paper further discusses the emergence of complementary rural livelihood and skill development programmes and recent policy reforms aimed at strengthening employment generation and livelihood security. It concludes that employment guarantee has evolved from temporary public works to a rights-based labour market institution that contributes to inclusive growth, social protection, and sustainable rural development.

Keywords: Employment Guarantee; Employer of Last Resort (ELR); Labour Market Intervention; MGNREGA; VB-G RAM G.

Introduction:

The concept of an employment guarantee, whereby the government functions as the Employer of Last Resort (ELR), has been adopted by many countries in different forms over time. Its origins can be traced to the Poor Employment Act of 1817 in Great Britain, followed by the New Deal Programmes in the United States during the 1930s. Similar initiatives include Argentina's Plan Jefes y Jefas (Programme for Unemployed Male and Female Heads of Households), Morocco's Promotion Nationale (introduced in 1961), Bolivia's Emergency Social Fund, Botswana's Labour-Based Drought Relief Programme and Labour-Intensive Rural Public Works Programme (from the 1980s onwards), Chile's Programa de Empleo Mínimo (Minimum Employment Programme), and South Africa's Expanded Public Works Programme (launched in 2004), among others. Over the past few decades, government intervention in the labour market through its role as the Employer of Last Resort has become an important component of labour market policies in many developing countries. Contemporary examples include public employment programmes in India, Bangladesh, Pakistan, the Philippines, Egypt, Botswana, Kenya, and Chile (Subbarao, 1997; Lipton, 1996).

Against this backdrop, India introduced the ambitious National Rural Employment Guarantee Scheme (NREGS) in February 2006, following the enactment of the National Rural Employment Guarantee Act (NREGA) by the Indian Parliament in September 2005. The introduction of the scheme renewed academic and policy interest in assessing the effectiveness of welfare-through-work programmes in providing an economic safety net for the rural poor (Dey, 2009). Against this background, the present article offers a conceptual discussion of employment guarantee as a labour market intervention, with particular reference to the Indian experience. It traces the evolution of public employment programmes in India, examines the rationale for employment guarantee as an Employer of Last Resort (ELR), and discusses the emergence of MGNREGA along with subsequent complementary labour market and livelihood programmes.

Employment Guarantee as a Labour Market Intervention: A Conceptual Framework

An employment guarantee scheme is designed to reduce poverty which is experienced by those whose income is low due to joblessness. Moreover, any such scheme is though primarily designed to reduce poverty but is not a targeted social protection scheme for the poor. These are designed to provide universal guarantee of employment. Besides fulfilling availability of guaranteed unskilled manual work on piece-rate basis on demand, the employment guarantee schemes also satisfy the following conditions:

1. The work which is chosen is labour intensive in nature.
2. After completion of the work under the scheme a productive asset is supposed to be generated.

In EGS, government provides the job opportunity with assurance of minimum wage. But whether to participate or not is decided by the beneficiaries themselves. That is why this is a self-targeting programme & this option of self targeting is universal. In EGS, the minimum wage rate, unskilled manual labour work, piece-rate– all these are designed in such a way that non-poor will supposedly find dis-incentive with these kinds of arrangements. Hence, these schemes are ‘universal de jure, but targeting de facto’ (Imai, 2007).

In principle, the EGS (as a special case of rural public works) confers transfer and stabilisation benefits. The transfer benefits can be direct- the gross earnings of participants less any cost they incur in participating-- or indirect-- including the share of the poor in the extra income generated by the scheme’s output, and any other second round effects from other income sources (e.g., higher agricultural wage rates). The stabilisation benefits arise mainly from the scheme’s effect on the risk faced by the poor of a decrease in consumption. Since large segments of the rural population barely survive during slack periods, a reduction in the risk of consumption falling below a subsistence level matters a great deal. The reduction of this risk, in turn, may be the crucial welfare gain of the scheme, as a form of insurance that effectively increases *ex ante* contingent wealth and reduces *ex post* income volatility of workers.

At the moment, such types of EGP are operating in many parts of the world including India .

Public employment programmes can play an important role in reducing poverty and protecting households from the negative effects of seasonal income shortages when they are implemented effectively (Klonner & Oldiges, 2022).

Employment guarantee programmes represent an active labour market policy through which the government acts as the Employer of Last Resort (ELR). Such programmes intervene directly in the labour market by providing employment to individuals who are unable to obtain work in the private sector. Consequently, they reduce open unemployment, stabilise rural labour markets, create a wage floor for unskilled labour, and enhance household income security during periods of economic distress.

Evolution of Government Intervention in the Labour Market in India

Government intervention in the labour market through its role as the Employer of Last Resort (ELR) has a long history in India. Beginning with the Rural Works Programme in 1961, the Government introduced a series of employment generation programmes, including the Crash Scheme for Rural Employment (CSRE) (1971–1974), the Food for Work Programme (FWP) (1977–1980), the National Rural Employment Programme (NREP) (1980–1989), the Rural Landless Employment Guarantee Programme (RLEGP) (1983–1989), and the Jawahar Rozgar Yojana (JRY) (1989–1999), among others. The rationale for these programmes rests on three main objectives. First, labour-intensive employment programmes generate employment and help stabilise fluctuations in labour demand. Second, they serve as an instrument for transferring employment opportunities and income to poorer sections of society. Third, they facilitate the creation of rural assets through a relatively low-cost approach.

A review of India's experience with labour-intensive public employment programmes implemented before 2006 indicates that they contributed to improvements in rural infrastructure and household welfare during the country's development planning period. However, empirical studies also reveal that these programmes fell short of achieving their employment and growth objectives, largely due to implementation deficiencies and corruption.Thus, despite the efforts to enhance livelihood security to the people, the unemployment and poverty are extremely high and are the most burning problems of the country today. The govt. has now changed its wage employment policy from self-targeting employment programme to universal programme.

The limitations of earlier wage employment programmes, particularly in terms of implementation inefficiencies, leakages, and the absence of a legal entitlement to employment, prompted a significant shift in India's labour market policy. This shift culminated in the enactment of the National Rural Employment Guarantee Act (NREGA), transforming employment assistance into a legally enforceable right.

Despite its achievements in poverty reduction, reducing out migration and asset creation, MGNREGA continues to face several implementation challenges. These include instances where completed works are not found on the ground, discrepancies between reported expenditure and actual physical progress, the use of machinery in works intended to be labour-intensive, and the circumvention of the mandatory digital attendance system. Furthermore, the programme has not consistently fulfilled its legal guarantee of 100 days of employment. In the post-pandemic period, only a small proportion of participating households were able to secure the full one hundred days of employment, thereby limiting the scheme's effectiveness in providing sustained livelihood security. To address these gaps, the Government of India revamped its flagship rural employment programme by replacing MGNREGA with the Viksit Bharat Guarantee for Rozgar and Ajeevika Mission Gramin (VB-G RAM G) in December 2025 (Indian School of Public Policy, 2026).

Employment as a legal right in India:

The enactment of the National Rural Employment Guarantee Act (NREGA) on 7 September 2005 was the outcome of sustained efforts by people's movements and civil society organisations advocating the universalisation of the right to work, as envisaged in the Indian Constitution, as well as the positive experience of the Maharashtra Employment Guarantee Scheme. With the introduction of NREGA, India became the first country in the world to provide a legal guarantee of employment. The Act is implemented by the state governments under the provisions laid down in the legislation and is known at the state level as the National Rural Employment Guarantee Scheme (NREGS). However, the Central Government bears 80 per cent of the expenditure incurred in the execution of works under the scheme.

The main objective of NREGS is to enhance livelihood security in rural areas by guaranteeing at least 100 days of wage employment each year to every rural household whose adult members are willing to undertake unskilled manual work. Unlike earlier wage employment programmes, NREGS provides a statutory guarantee of employment on demand, making it a rights-based employment programme.

The implementation of NREGS was carried out in phases. It was first launched in 200 of the country's poorest districts on 6 February 2006, followed by its extension to 130 additional districts in April 2007. The remaining districts were brought under the scheme from 1 April 2008. Consequently, the programme was extended to almost the entire country, excluding Jammu and Kashmir and districts with a 100 per cent urban population.NREGS was renamed as the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)/Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2009.

Complementary Labour Market and Livelihood Programmes in the Post-MGNREGA Period:

NREGS was renamed as the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2009. While MGNREGA remains India's principal employment guarantee programme providing a statutory right to wage employment, the Government of India has subsequently introduced several complementary initiatives to strengthen labour market outcomes, livelihood security, and skill development. These include the National Rural Livelihoods Mission (NRLM) launched in 2011 renamed as DAY-NRLM in 2015, the Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) launched in 2014, the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) launched in 2015, and the Garib Kalyan Rojgar Abhiyaan (GKRA) launched in 2020. Although these programmes do not provide a legal guarantee of employment, they complement MGNREGA by promoting skill development, self-employment, wage employment, rural entrepreneurship, and livelihood diversification.

Conclusion:

Employment guarantee has evolved as an important labour market intervention for addressing unemployment, poverty, and livelihood insecurity. India's experience demonstrates a gradual transition from temporary public works programmes to a rights-based employment guarantee through MGNREGA. Beyond providing wage employment, employment guarantee programmes contribute to income security, rural asset creation, and labour market stabilisation. The introduction of complementary livelihood and skill development programmes further reflects a broader policy approach aimed at enhancing rural employment opportunities and promoting inclusive development. The Indian experience offers valuable lessons for developing countries seeking to strengthen social protection through labour market interventions. In this sense, employment guarantee should be viewed not merely as a poverty alleviation programme but as an important labour market institution capable of promoting inclusive growth, social protection, and sustainable rural development. Employment guarantee has evolved from relief work to an active labour market policy. MGNREGA institutionalized the Employer of Last Resort concept. Recent reforms show a transition toward integrated livelihood and employment policies.

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