
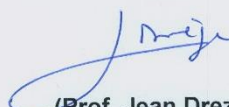
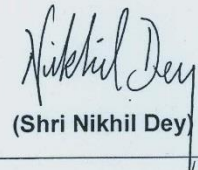

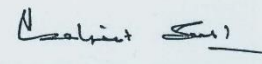




REPORT OF THE COMMITTEE ON MGNREGA WAGE RATE INDEXATION

Appointed by Ministry of Rural Development, Govt. of India vide Office Memo. No. J-11011/1/2009-MGNREGA(RE-III) dated 15th October, 2013

Submitted by Members of the Committee

 (Prof. S. Mahendra Dev)	
<p>With mild dissent,</p>  (Prof. Jean Dreze)	 (Shri Nikhil Dey)
 (Dr. K.P. Kannan)	 (Shri Daljeet Singh, Director General, Labour Bureau)
 (Shri Kameshwar Ojha, Deputy Director General(Prices & Cost of Living Unit), Representative of Director General, CSO)	 (Shri Amar Jeet Banga, Director(RD), Representative of Adviser (Rural Development), Planning Commission)

Dissent note of Prof. Jean Dreze is enclosed

Note of Mild Dissent

Since my consent was not sought before including me in this committee, or before setting the dates of the meetings, I have been unable to contribute much to it. In fact, anticipating this I had requested the chairperson (by email on 21 December 2013) to accept my apologies and place on record my release from the committee. Since my endorsement of the final report is nevertheless being sought, I am requesting the chairperson to append this note to the report.

The report deals with two distinct issues: (1) whether the CPIAL or some other price index is “the proper index for revising MGNREGA wage rates every year”, and (2) “the modalities for resetting the baseline in 2014 and thereafter every five years”. The first issue is relatively straightforward and, in my view, adequately dealt with in the report.

The second issue is more complicated. The committee’s recommendation is that “the baseline for MGNREGA wage indexation from 2014 may be the current minimum wage rate for unskilled agricultural labourers fixed by the states under the Minimum Wages Act or the current MGNREGA wage rate, whichever is higher”. The basis of this far-reaching recommendation is not discussed in the report. Also, it is not quite clear whether it is a recommendation just for 2014, or for resetting the baseline every five years. It appears to be the former, even though the terms of reference call for advice on “the modalities for resetting the baseline in 2014 *and thereafter every five years*”.

This recommendation needs to be read in the light of two recent developments relating to MGNREGA wage rates. First, MGNREGA wages have stagnated in real terms ever since the Government of India decided to “activate” Section 6(1) of the Act (which empowers it to set MGNREGA wages irrespective of the Minimum Wages Act) in January 2009 - more than five years ago. During the same period, there have been massive delays in MGNREGA wage payments across the country, following the switch from cash payments to bank (or post-office) payments of wages. Meanwhile, market wages have increased steadily in real terms. As a result, MGNREGA has become much less attractive for rural workers than it used to be. This has almost certainly contributed to the sharp decline in MGNREGA employment generation during the last few years (from 284 crore person-days in 2009-10 to 218 crore person-days in 2013-4 according to MoRD data).

Second, the activation of Section 6(1) in January 2009 has led to a worrying situation where MGNREGA employment violates the Minimum Wages Act from time to time in many states, because MGNREGA wages are lower than the minimum wages for casual labour applicable in those states. This is sought to be justified on the grounds that Section 6(1) explicitly allows the Central Government to set MGNREGA wages “notwithstanding anything contained in the Minimum Wages Act”. However, there are serious doubts about the legal validity of this provision (which is being examined by the Supreme Court). Aside from the legal issues, there are other strong arguments against allowing MGNREGA to override the Minimum Wages Act. This matter was discussed in detailed in the Report of the Central Employment Guarantee Council’s Working Group on Wages (August 2010). The Working Group made the following unanimous recommendation: “NREGA policy must be consistent with the Minimum Wages Act. In no

circumstances should this Act be overridden.” In other words, it stressed the need for a *permanent reconciliation of MGNREGA with the Minimum Wages Act*. The report discussed various ways of achieving that, and called for further examination of this complex issue.

Coming back to the second recommendation of the committee, it amounts to a *temporary* reconciliation of MGNREGA with the Minimum Wages Act, by bringing MGNREGA wages in line with state-specific minimum wages in the baseline (i.e. 2014). Thereafter, any overriding of the Minimum Wages Act under MGNREGA (this would occur, *de facto*, whenever a state raises its minimum wage above the MGNREGA wage) would remain open to the challenges and other objections. Further, this approach (of resetting the baseline in line with minimum wages and then just indexing thereafter) entails a danger that *MGNREGA will slow down the growth of minimum wages*. This is because any state that raises its minimum wage above the MGNREGA wage would create a situation of illegality or deemed illegality for which it may be held responsible by the courts (as has already happened, I believe, in some states). The play-safe policy would then be to just increase minimum wages in tandem with MGNREGA wages, i.e. in line with inflation. This would lead to a situation where both minimum wages and MGNREGA wages *stagnate in real terms over time* – not just for five years but possibly much longer, if the method being proposed by the committee to reset the baseline in 2014 is followed again five years later. This would be a very unfortunate outcome, especially in a fast-growing economy.

Permanent reconciliation of MGNREGA with the Minimum Wages Act was perhaps not part of the terms of reference of the committee. Nevertheless, it is important to note that the committee’s recommendations (valid as they may be within the terms of reference) are being made within a framework that perpetuates a tension between MGNREGA and the Minimum Wages Act. The above-mentioned Working Group had recommended that the Central Government should revert to Section 6(2) (instead of 6(1)) of MGNREGA as a basis for the fixation of wages until such time as a MGNREGA wage policy consistent with the Minimum Wages Act is worked out. I doubt that there is any other legally tenable way forward.

But there is another issue. In the light of the fact that MGNREGA wages have stagnated in real terms during the last five years, and are lagging behind market wages, a substantial *increase in real terms* of MGNREGA wages is long overdue – not just an upward revision to protect them against inflation. The committee has not gone into this matter and therefore makes a very conservative recommendation for resetting the baseline in 2014.

I feel that the committee has missed an opportunity to recommend a substantial, immediate increase in real wages for MGNREGA workers. Aside from stagnating real wages, MGNREGA workers have been victims of horrendous delays in payments during the last few years, which continue today. They are entitled to compensation for delays, but this almost never happens. A substantial increase in real wages is the least they deserve as a matter of elementary fairness. On this, my dissent with the committee report is more than mild.

Jean Drèze
24 April 2014

Report of the Committee on MGNREGA Wage Rate Indexation

**[Chairman : Prof. S. Mahendra Dev, Director & Vice-
Chancellor, Indira Gandhi Institute of Development Research,
Mumbai]**

**Ministry of Rural Development
MGNREGA Division**

REPORT OF THE COMMITTEE ON MGNREGA WAGE RATE INDEXATION

1. The Ministry of Rural Development, Government of India constituted, vide Office Memo dated 15th October, 2013 (**see Annexure I**), a seven-member Committee to suggest a proper index for revising MGNREGA wage rates every year so as to protect the wages against inflation. The Committee had the following Terms of Reference:
 - a) To examine whether the Consumer Price Index for Agriculture Labour (CPIAL) is the appropriate index for protecting the wages against inflation? If not, what would be the proper index for revising MGNREGA wage rates every year?
 - b) To arrive at the modalities of resetting the baseline in 2014 and thereafter every five years; and
 - c) Any other matter that has bearing on the issue.

2. The Committee deliberated the terms of reference in detail in its two meetings; one held on 22nd November 2013 in the Ministry of Rural Development, New Delhi and the other on 25th January, 2014 at the Indira Gandhi Institute of Development Research, Mumbai under the chairmanship of Prof. Mahendra Dev.

3. The Committee in its meeting on 22nd November 2013 decided to ensure real wages by linking these to an established index. Three of such indices are (i) Consumer Price Index for Agricultural Labourers (CPI-AL), (ii) Consumer Price Index-Rural Labourers (CPI-RL), and (iii) Consumer Price Index – Rural (CPI-R). The issue was to make an informed choice for identifying the most suitable index out of these three indices so as to link it to MGNREGA wages.

4. CPI-AL, CPI-RL and CPI-R: While the Labour Bureau of the Ministry of Labour and Employment, Government of India computes and publishes the CPI-AL and CPI-RL, the Central Statistical Organisation (CSO) of the Ministry of Statistics and Programme implementation computes and publishes the CPI-R. These indices measure temporal changes in prices of a fixed basket of goods and services consumed by the target group as defined in the respective price indices. The present series of Consumer Price Index Numbers for Agricultural and Rural Labourers (CPI-AL and RL) take 1986-87 as the base year i.e., 1986-87=100. CPI-AL and

CPI-RL are compiled for 20 States and also for all-India on a monthly basis. However, the CPI-R is a newly constructed index and is being compiled from January 2011 with 2010 as the base year. The CPI-AL covers the households of agricultural labourers and the CPI-RL covers the households of rural labourers (including agricultural labourers). The CPI-R, however, provides the price changes for the entire rural population of the country.

5. CPI-AL, CPI-RL, CPI-R All India Group-wise weights: **A major drawback in using the CPI-AL and CPI-RL is that the weighting diagram is as old as 1983 since they are based on the weights derived from the consumer expenditure survey of that year. The Committee is of the opinion that the consumption pattern has changed significantly during the last 30 years. Given the thirty-year old weighting diagram, prices some of the items are not even available for data collection. In addition, new items of consumption must have also entered the consumption basket of the target groups. On the other hand, the weighting diagram for CPI-R is the recent 2004-05 consumer expenditure survey that would reflect the current pattern of consumption of the target groups. Prices for most of the items are collected for CPI-R.** In view of the difference in coverage of the three series, the consumption pattern depicted by them is different. In other words, the items of goods and services selected for index compilation and also the importance attached to them are different. Moreover, the specifications/varieties of common items consumed by them are different as they represent different sets of population. Since the index numbers are worked out by utilising prices of selected goods and services and assigning appropriate weights to them, their movements are bound to be different depending upon the unit/quality of the selected items of goods and services and also importance attached to them (see Table 1). As CPI-AL and CPI-RL use old weights, cereals and products has 40% weight while the same thing for CPI-R was only 19%. In other words, food items have higher weights in CPI-AL and CPI-RL as compared to CPI-R.

Table 1: All India Weights of various CPI series

Sub group/group	CPI-R	CPI-AL	CPI-RL
Cereals and products	19.08	40.94	38.15
Pulses and products	3.25	3.39	3.4
Milk and milk products	8.59	3.74	3.94
Oils and fats	4.67	3.83	3.79
Egg, fish and meat	3.38	3.1	3.31
Vegetables	6.57	4.18	4.05
Fruits	1.9	0.88	1
Sugar etc	2.41	2.58	2.59
Condiments and spices	2.13	4.12	3.92
Non- alcoholic beverages	2.04	2.39	2.62
Prepared meals etc	2.57		
Pan, tobacco and Intoxicants	2.73	3.79	3.7
Food, beverages and tobacco	59.31	72.94	70.47
Fuel and light	10.42	8.35	7.9
Clothing and bedding	4.6	6.28	6.17
Footwear	0.77	0.7	3.59
Clothing, bedding and footwear	5.36	6.98	9.76
Housing	0	0	0
Education	2.71	0.41	0.39
Medical care	6.72	4.38	4.23
Recreation and amusement	1	0.53	0.6
Transport and communication	5.83	1.67	1.8
Personal care and effects	3.05	2.04	2.28
Household requisites	4.48	2.7	2.57
Others	1.12		
Miscellaneous	24.91	11.73	11.87
Total	100	100	100

Source: (1) Consumer Price Index Numbers for Agricultural and Rural Labourers-Annual Report 2011-12-Ministry of Labour & Employment, Govt. of India; (2) Brochure on Consumer Price Index Numbers-Separately for Rural and Urban Areas and also Combined(Rural plus Urban)-Central Statistics Office, Ministry of Statistics & Programme Implementation, Govt. of India

6. Table 2 provides annual inflation for different indices, It shows inflation does not show a uniform pattern over the years for different indices. Inflation for CPI-R was higher than CPI-AL throughout 2012 except in November and December. On the other hand, CPI-AL showed higher inflation than CPI-R throughout 2013.

Month	CPI-RURAL		CPI-AL		CPI-RL	
	2012(over corresponding month of 2011)	2013(over corresponding month of 2012)	2012(over corresponding month of 2011)	2013(over corresponding month of 2012)	2012(over corresponding month of 2011)	2013(over corresponding month of 2012)
April	9.73	9.16	7.84	12.32	8.01	12.15
May	9.57	8.98	7.77	12.70	8.11	12.50
June	9.65	9.63	8.03	12.85	8.55	12.65
July	9.76	9.14	8.61	12.80	8.94	12.61
August	9.90	8.93	9.18	13.21	9.34	12.89
September	9.80	9.71	9.43	12.78	9.93	12.44
October	9.90	10.19	9.85	12.65	9.84	12.48
Nov.	9.97	11.74	10.31	13.43	10.47	13.27
Dec.	10.74	Not released	11.33	Not released	11.31	Not released
Jan.	7.28	10.79	4.92	12.30	5.27	12.28
Feb	8.36	11.01	6.34	12.72	6.68	12.52
March	8.70	10.41	6.84	12.64	7.19	12.62

Source: Web-sites of Ministries of Labour & Employment and Statistics & Programme Implementation

7. The estimation of wage rates assuming linkage with CPI-RL and CPI-R in the same way as fixed for MGNREGA by indexing with CPIAL since the beginning of the price indexation and their comparison are given in **Annexure II**. Since CPI-R was introduced only in 2010, the index figures are available with effect from January, 2011. Hence, notional fixation in indexation with CPI-R could not be made for the year 2011. All calculations for indexation under CPI-RL and CPI-R have been made point to point exactly as made while indexing with CPI-AL.

8. Financial implications

Scenario 1: Wage revision by indexing to CPI-AL	
Assumption: Persondays will be 229 Cr (2012-13 figure)	
	Rs. Cr
If Wage rates as per current rates is maintained	34,281.8
If wages are enhanced as per CPI-AL but calculated as a proportion of current average wage	35,407.1
If wage rates are enhanced as per CPI-AL	38,725.9
If wages are refixed at wage rate/Minimum wage whichever is higher	40,928.5

Scenario 2: Wage revision by indexing to CPI-R	
Assumption: Persondays will be 229 Cr (2012-13 figure)	
	Rs. Cr
If Wage rates as per current rates is maintained	34,281.8
If wages are enhanced as per CPI-R but calculated as a proportion of current average wage	34,875.8
If wage rates are enhanced as per CPI-R	37,602.5
If wages are refixed at wage rate/Minimum wage whichever is higher	40,209.6

(9) At the outset, the Committee at its meeting held on 25th January, 2014, endorsed its recommendation that

”the baseline for MGNREGA wage indexation from 2014 may be the current minimum wage rate for unskilled agricultural labourers fixed by the states under the Minimum Wages Act” or the ”current MGNREGA wage rate” whichever is higher.

As regards the choice of the suitable index, the Committee deliberated on the issue in some detail. The main points of the discussion may be summarised as follows:

- (a) Given the changes in the consumption pattern of the rural population including rural labour households, the CPI-AL and CPI-RL poorly reflects the current consumption pattern of the target groups. It is high time that the base year is changed to reflect the current consumption pattern. Given the direct relevance to policies and programmes, the merit of a consumer price index is its relevance to the current situation as well as quick and timely publication.
- (b) The representatives of the Labour Bureau, Shimla agreed that the CPI-AL and CPI-RL weights will have to be updated and assured that the process has begun but it will take some time before the results are published. The Committee noted that the price

collection mechanism for these two indices has stood the test of time and that it should continue.

- (c) The Committee noted that the MGNREGA is applicable to all rural households and not just labour households. Theoretically, therefore, it is only proper that an index that reflects the rural consumption basket and prices are taken as the relevant index for revising the wage rates under the MGNREGA. Further, the Committee also noted that the weighting diagram used in the construction of CPI-R is based on the 2004-05 consumer expenditure survey which reflects the current consumption pattern of the rural households.
- (d) The Committee members underlined the critical role of price collection and verification since it is the only variable factor in the construction of the price index. Therefore, recognising the significance of the current prices in wage indexation of MNREGA workers, the Committee urged for bringing improvement in price collection system by imparting periodic training and also ensuring multiple checks. .
- (e) By working out two scenarios of the aggregate financial implication, the Committee has also presented to the Government of India an informed choice.

(10) Based on above deliberations, the Committee's recommendations are:

- (i) the baseline for MGNREGA wage indexation from 2014 may be the current minimum wage rate for unskilled agricultural labourers fixed by the states under the Minimum Wages Act' or the 'current MGNREGA wage rate', whichever is higher; and

- (ii) Consumer Price Index for Rural (CPI-Rural) may be considered as the appropriate index for protecting the wages against inflation and as such the CPI-Rural be adopted for revising wage rates every year under the Mahatma Gandhi National Rural Employment Act.

No. J-11011/1/2009-MGNREGA(RE-III) Pt. III
Ministry of Rural Development
Department of Rural Development
(MGNREGA Division)

Krishi Bhawan, New Delhi-110114.
Dated: 15th October, 2013.

OFFICE MEMORANDUM

Subject: Constitution of Committee to suggest a proper index for revising MGNREGA wage rates every year by protecting the wages against inflation.

The undersigned is directed to invite a reference to Ministry of Statistics and Programme Implementation's Office Memo. no. P-13011/2/2010-NAD(PCL) dated 2nd March, 2010 constituting, on the request of this Ministry, a Committee to develop a mechanism to evolve a framework to create a separate index for updation of MGNREGA wages and related issues under the chairmanship of the then Chief Statistician of India and Secretary(S&PI) Dr. Pronab Sen.


2. The aforesaid Committee is yet to submit its report. In view of subsequent developments since the constitution of the Committee, it has been decided to constitute a new Committee to suggest a proper index for revising MGNREGA wage rates every year by protecting the wages against inflation with the following composition:

- | | |
|---|------------------|
| (i) Prof. S. Mahendra Dev, Director(Vice Chancellor), Indira Gandhi Institute of Development Research | Chairman |
| (ii) Prof. Jean Dreze, Visiting Faculty, Govind Ballabh Pant Social Science Institute, Jhusi, Allahabad-211019. | Member |
| (iii) Shri Nikhil Dey, Mazdoor Kisan Shakti Sangathan, Village Devdoongri, Post-Brar, District Rajsamand, Rajasthan | Member |
| (iv) Director General, CSO | Member |
| (v) Director General, Labour Bureau, M/o Labour & Employment | Member |
| (vi) Dr. K.P. Kannan, former Member, National Commission for Enterprises in the Unorganized Sector | Member |
| (vii) Adviser (Rural Development), Planning Commission | Member |
| (viii) Joint Secretary(MGNREGA), M/o Rural Development | Member-Secretary |

3. The Terms of Reference of the Committee are as under:-

- whether the Consumer Price Index for Agriculture Labour(CPIAL) is the appropriate index for protecting the wages against inflation? If not, what would be the proper index for revising MGNREGA wage rates every year?;
- Mode of resetting the baseline in 2014 and thereafter every five years;
- Any other matter that has bearing on the issue

4. The Committee would submit its report within three months.


(APARAJITA SARANGI)
Joint Secretary to the Govt. of India
Tel: 23383553

To

- (i) Prof. S. Mahendra Dev, Director(Vice Chancellor), Indira Gandhi Institute of Development Research
- (ii) Prof. Jean Dreze, Visiting Faculty, Govind Ballabh Pant Social Science Institute, Jhusi, Allahabad-211019.
- (iii) Shri Nikhil Dey, Mazdoor Kisan Shakti Sangathan, Village Devdoongri, Post-Brar, District Rajsamand, Rajasthan
- (iv) Director General, CSO
- (v) Director General, Labour Bureau, M/o Labour & Employment
- (vi) Dr. K.P. Kannan, former Member, National Commission for Enterprises in the Unorganized Sector
- (vii) Adviser (Rural Development), Planning Commission
- (viii) Joint Secretary(MGNREGA), M/o Rural Development

Copy for information to:

1. PS to Minister(RD)
2. PS to MOS(RD-PJ)/MOS(RD-LK)
3. Sr. PPS to Secretary, Ministry of Statistics & Programme Implementation, Sardar Patel Bhawan, Sansad Marg, New Delhi-110001.
4. Sr. PPS to Secretary(RD).
5. PPS to Additional Secretary(RD)
6. JS(RE-I)/JS(RE-II), M/o Rural Development.

Annexure-II

Comparison of wage rates as per indexation with CPI(AL)-Actual, CPI(RL)-Notional and CPI(Rural)-Notional

State/UT	Year											
	2011			2012			2013			2014		
	CPI(AL)-Actual	CPI(RL)-Notional	CPI(Rural)-Notional	CPI(AL)-Actual	CPI(RL)-Notional	CPI(Rural)-Notional	CPI(AL)-Actual	CPI(RL)-Notional	CPI(Rural)-Notional	CPI(AL)-Actual	CPI(RL)-Notional	CPI(Rural)-Notional
ANDHRA PRADESH	121	122		137	138	128	149	151	142	171	173	157
ARUNACHAL PRADESH	118	119		124	126	127	135	137	144	155	156	159
ASSAM	130	129		136	128	143	152	143	156	167	157	178
BIHAR	120	120		122	122	128	138	137	144	160	159	167
CHHATTISGARH	122	121		132	131	128	146	146	138	145	161	162
GUJARAT	124	123		134	133	135	147	146	147	172	170	164
HARYANA	179	180		191	192	191	214	215	206	241	243	230
HIMACHAL PRADESH - Non Schedules	120	116		126	122	126	138	134	138	157	153	155

ed Area												
HIMACHAL PRADESH - Scheduled Area	150	145		157	153	158	171	168	173	196	198	
JAMMU AND KASHMIR	121	122		131	131	132	145	146	142	160	162	156
JHARKHAND	120	120		122	122	126	138	137	142	160	159	163
KARNATAKA							174	0		195	193	
KERALA	150	150		164	164	160	180	180	174	210	208	192
MADHYA PRADESH	122	121		132	131	134	146	146	147	161	161	164
MAHARASHTRA	127	129		145	147	136	162	164	149	170	172	163
MANIPUR	126	126		144	144	135	153	153	136	175	175	143
MEGHALAYA	117	118		128	129	143	145	146	150	155	156	165
MIZORAM	129	131		136	138	133	148	150	149	170	171	167
NAGALAND	118	119		124	126	126	135	137	134	155	156	150
ORISSA	125	125		126	127	130	143	144	143	168	169	165
PUNJAB	153	124		166	166	162	184	183	177	207	204	195

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Note: Since CPI-Rural was introduced only in 2010, the index figures are available with effect from January, 2011. Hence, notional fixation in indexation with CPI-Rural could not be made for the year 2011.

