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## Impact of Rural Employment Guarantee Schemes on Seasonal Labor Markets: Optimum Compensation and Workers' Welfare

by Arnab K. Basu  
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### Abstract:

The recent enactment of the National Rural Employment Guarantee Act in India has been widely hailed a policy that provides a safety net for the rural poor with the potential to boost rural income, stabilize agricultural production and reduce rural-urban migration. This paper, models the impact of such employment guarantee schemes in the context of an agrarian economy characterized by lean season involuntary unemployment as a consequence of tied-labor contracts. Specifically, we examine labor and output market responses to a productive rural Employment Guarantee Scheme (EGS) and determine the optimal compensation to public work employees consistent with the objectives of (i) productive efficiency in agriculture and (ii) welfare maximization of the laborers. Our framework provides a theoretical framework for the evaluation of a number of (sometimes) conflicting observations and empirical results on the impact of an EGS on agricultural wages, employment and output, and underscores the importance of the relative productivity of workers in the EGS program vis-à-vis their counterparts engaged in agricultural production in determining the success of these programs.

**Text:** See [Discussion Paper No. 5701](#)



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